



COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2012**

PREPARED BY

**FINANCE DEPARTMENT
CITY OF STEPHENVILLE, TEXAS**

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CITY OF STEPHENVILLE, TEXAS

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INTRODUCTORY SECTION

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January 4, 2013

TO: The Honorable Mayor, Members of the City Council, and the Citizens of Stephenville (the “City”)

The Finance Department and City Administrator's Office are pleased to submit the Comprehensive Annual Financial Report for the City of Stephenville, Texas for the fiscal year ended September 30, 2012.

This report provides the city council, city staff, our citizens, our bondholders and other interested parties with detailed information concerning the financial condition and activities of the city government. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City.

To the best of our knowledge and belief the enclosed data is accurate in all material respects, and is organized in a manner designed to fairly present the financial position and results of operations of the City as measured by the financial activity of its various funds. We also believe that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

Pattillo, Brown and Hill, LLP, Independent Certified Public Accountants, has issued an unqualified (“clean”) opinion on the City’s financial statements for the year ended September 30, 2012. The independent auditor’s report is located at the front of the financial section of this report.

Management’s discussion and analysis (MD&A) immediately follows the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

CITY PROFILE



Location

The City is a political subdivision and municipal corporation of the State of Texas, duly organized and existing under the laws of the state and the City’s home rule charter. The City was incorporated in 1854 and chartered a home-rule city under Texas law in 1961. The City is located on the intersection of U.S. Highways 67, 281, and 377. The City occupies approximately 11.79 square miles and serves a population of about 18,290. The City is empowered by state statute to levy a tax on both real and business personal property located within its boundaries. The City also has the power by state statute to extend its corporate city limits by annexation, which is done periodically when deemed appropriate by the city council.

The City operates under the mayor-council form of government. Policy-making and legislative authority are vested in a governing council consisting of the mayor and eight (8) council members. The city council is responsible for, among other things, passing ordinances, adopting the budget, appointing committees, and hiring the city administrator. The city administrator is responsible for carrying out the policies and ordinances of the city council, for overseeing the day-to-day operations of the City, and appointing heads of various departments. The mayor and city council members each serve two-year terms, and are elected at large. The basic financial statements of the City include all governmental activities, organizations and functions for which the City is

financially accountable as defined by the Government Accounting Standards Board (GASB). Based on these criteria no other governmental organizations are included in this report.

Services Provided

The City provides a full range of services, including public safety (police, fire, and emergency medical), maintenance of streets and infrastructure, sanitation services, maintenance of the treated water distribution system and both sanitary and storm sewer collection and transmission systems, recreational activities and cultural events, landfill operations, airport facility maintenance as well as general administrative services.

Accounting System and Budgetary Control

The City's accounting records for general governmental operations are maintained on a modified accrual basis, with the revenues being recorded when available and measurable, and expenditures being recorded when the services or goods are received and the liabilities incurred. Accounting records for the City's utilities are maintained on the accrual basis.

In developing and maintaining the City's accounting system, consideration is given to the adequacy of the internal control structure. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability of assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City's internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The annual budget serves as the foundation of the City's financial planning and control. The city council formally adopts the budget and legally appropriates available monies for activities of the General Fund, Enterprise Funds, Internal Service Funds, Special Revenue Funds, Debt Service Fund and capital improvements.

No later than August 1st each year, the city administrator submits to the city council a proposed budget which provides a complete plan for the fiscal year commencing October 1. The budget includes proposed expenditures and means of financing them. The proposed budget is made available for public inspection, and a public hearing is held to allow for citizen comment. After the public hearing, council may make changes to any item in the budget, except those fixed by law. No later than September 23, the budget is legally enacted by ordinance which sets the limit on expenditures during the fiscal year. Additional expenditures may be authorized in the case of grave public necessity to meet unusual and unforeseen conditions which could not have reasonably been foreseen at the time the budget was adopted.

The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is at the departmental level; however, expenditures are monitored monthly at the department level to ensure financial accountability by department directors. Management control of budgets is further maintained at the line item level within the department. The City also maintains an encumbrance accounting system to further accomplish budgetary control. Under the City's financial policies, encumbered amounts in the General Fund at year's end lapse and balances flow forward as unassigned fund balances. For Capital Improvement Funds and Special Revenue Funds the encumbered amounts are reflected as a restriction of the fund balance at year's end. Encumbrances are generally re-appropriated as a part of the following year's budget. As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

ECONOMIC CONDITION

Local Economy

The City serves as the center of commerce and recreation to over 37,000 Erath County residents. The City is the county seat and the principal commercial, medical, retail, educational and industrial center of Erath County. The City currently enjoys a fairly stable and diversified economic environment, bolstered by the strength of both the Cross Timbers area and the State of Texas. Our economy is based on agriculture, manufacturing, and Tarleton State University. Agriculture has long been Erath County's leading industry with livestock, especially beef, dairy and other livestock production. Erath County was the State's 10th largest for cattle production in 2010. The City is fortunate to have several manufacturing industries in town. Local manufacturing includes coated abrasives, oilfield related products, cream cheese, fiber gratings and fasteners, metal processing of electrical products, trailer customization, and forged pipe unions. Tarleton State University, a member of the Texas A&M System, provides further economic stability as the largest employer. The student body includes representatives from 220 Texas counties, 45 states, and 34 foreign countries. Tarleton's 2012 fall enrollment was in excess of 10,000 students.

Stephenville ranks high in the state for a quality of work environment. As of September 2012, with unemployment at 6.8% statewide, Stephenville's unemployment was 5.2%. The city has adequate—yet below-average—wealth and income. According to the U. S. Census Bureau's 2010 American Community Survey published in 2011, Stephenville's median household income is \$33,175 compared to \$40,650 for DFW and \$48,615 for Texas. Also, according to the survey, the workforce is educated with 24.5% of the population having a bachelor's degree or higher, compared to 28.9% for DFW and 25.9% for Texas.

The stable property values, sales tax receipts and building activity reflect the area's positive economic climate.

During 2011, the City participated in Economic Development Programs with Tejas Tubular and FMC Technologies Fluid Control Division to expand their facilities and create jobs. The expansions were completed in 2012 and created approximately 100 to 150 new jobs for Stephenville. The overall tax base is anticipated to increase property valuations for 2014 from the expansions. Tarleton State University has experienced double-digit growth for several years, and this trend is expected to continue.

Long-term Financial Planning

The City's ability to respond to on-going economic challenges will require careful long-range planning. The City has responded to the economy by fiscal conservatism and implementing operating budget efficiencies that have resulted in maintaining healthy fund balances in its general fund and water/wastewater funds.

Users of this document are encouraged to read the City's Fiscal Year 2012-2013 Budget. The document details the City's long-term goals and financial policies, describes program accomplishments and initiatives, and outlines the City's capital improvement program. Also available for reference is the City of Stephenville's Comprehensive Plan which was adopted in 2006 and maps out the City's future strategies.

In addition, the City has recognized the long-term financial implications of its pension and retiree health benefits. Regarding pensions, we have adopted accelerated funding as proposed by the Texas Municipal Retirement System to ensure the long-term sustainability of the plan. The City does not provide for retiree health care. The City intends to provide a sustainable benefit to our employees without shifting costs to future tax payers.

Relevant Financial Policies

The City Council has adopted a series of financial standards and policies for operating and debt management. Management of the City has made every effort to comply with these standards and policies and believe we are currently in compliance.

The City Council Finance Committee meets on an as-needed basis to discuss financial and budgetary information, financial policies, fund balance requirements and tax rate setting information. None of the City's financial policies had a significant impact on the current period's financial statements, as the City was able to maintain equity levels within the stated policies for the governmental funds. Constant review of revenue and expenditure trends and equity levels is maintained with specific responsibility assigned to the Finance Director and City Administrator. The City's Finance Department publishes a monthly financial report which provides internal and external users with the general awareness of the City's financial positions and economic activity.

Major Initiatives

The City issued \$4.0 million in Certificates of Obligation in October 2011 for the purpose of constructing a new Fire Station No. 2, and for major street reconstruction projects. Construction began on the fire station in July 2012 and is expected to be completed by July 2013. The City has designated \$1.5 million of the issue to fund street reconstruction projects to be completed in 2013. The City anticipates issuing \$1 million in debt for wastewater line replacements in 2013.

AWARDS AND ACKNOWLEDGEMENTS

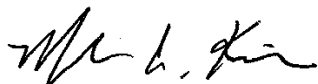
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement in Financial Reporting to the City of Stephenville for its Comprehensive Annual Financial Report for the fiscal year ended September 30, 2011.

The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. This award was the 27th consecutive year that the City of Stephenville has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire city staff. We would like to express our appreciation to all staff members who assisted and contributed to its preparation. We would also like to thank the Mayor and City Council Members for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully Submitted,



Mark A. Kaiser
City Administrator



Walter G. Wood
Director of Finance & Administration

Certificate of Achievement for Excellence in Financial Reporting

Presented to
City of Stephenville
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

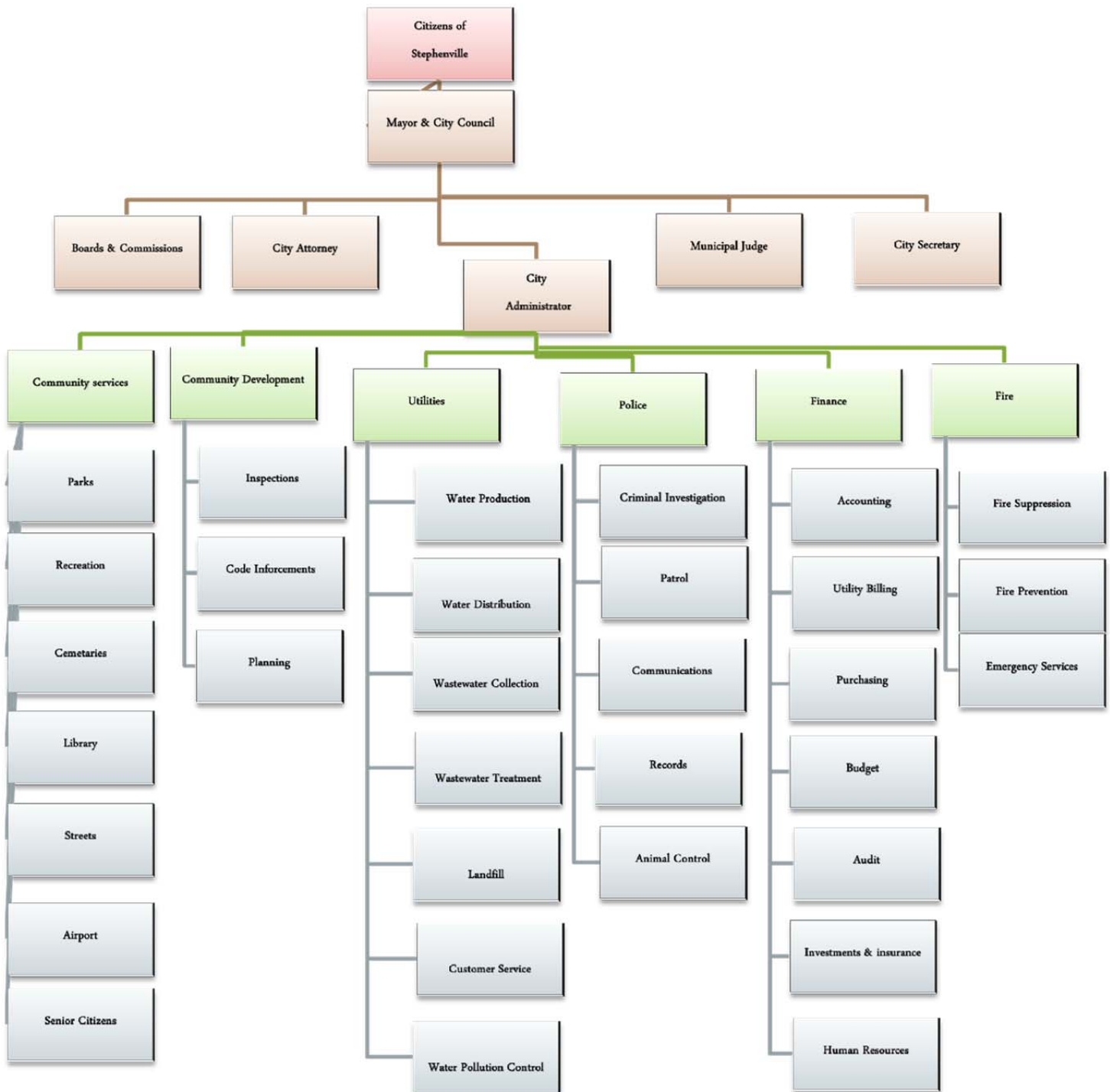


Christopher P. Morrell

President

Jeffrey R. Enen

Executive Director





Stephenville

City of Stephenville, Texas
298 W. Washington

Principal City Officials

City Council

Mayor: Kenny Weldon
Place 1: Joe Cude
Place 2: Malcolm Cross
Place 3: Doug Svien
Place 4: Russ McDanel
Place 5: Brady Pendleton
Place 6: Alan Nix
Place 7: Martha Taylor
Place 8: Scott Evans

Staff

City Administrator, Mark Kaiser
Director of Finance/Administration, Walter G. Wood
Director of Utilities, Nick Williams
Director of Community Development, Betty Chew
Police Chief, Patrick Bridges
Fire Chief, Jimmy Chew
Director of Community Services, Drew Wells
City Secretary, Cindy Stafford

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of City Council
City of Stephenville, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Stephenville, Texas, as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Stephenville's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Stephenville, Texas, as of September 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 and the schedule of funding progress for the Texas Municipal Retirement System on page 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Pattillo, Brown & Hill, L.L.P.

January 4, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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CITY OF STEPHENVILLE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR ENDED SEPTEMBER 30, 2012 (Unaudited)

This section of the City of Stephenville's (City) annual financial report presents our discussion of the City's financial performance during the fiscal year ended September 30, 2012. Please read it in conjunction with the transmittal letter, which can be found preceding this narrative, and with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City exceed its liabilities as of September 30, 2012, by \$60,460,734 (net assets). Of this amount, \$13,228,629 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net assets increased by \$2,475,476. The majority of this increase is attributable to capital grants and excess revenue over expenditures.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$11,855,870, an increase of \$3,397,337 over the prior year. The increase in combined ending fund balances is attributable to revenues received higher than budget and expenditures being less than budgeted. Approximately 64% of this total amount, \$7,632,024 is available for spending at the government's discretion (assigned and unassigned fund balance).
- As of September 30, 2012, unassigned fund balance for the General Fund was \$5,113,489 or 43% of total General Fund expenditures.
- During the current fiscal year the City issued certificates of obligation for the purpose of constructing and improving roads and constructing and equipping a fire station. The City's total long-term debt increased by \$1,826,000 (8%) during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Stephenville's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Stephenville is improving or deteriorating. The government-wide financial statements can be found on pages 12 -13 of this report.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensation absences). Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, streets, library, cemetery, culture and recreation, and community development. The business-type activities of the City include water and wastewater, storm water drainage, solid waste, and airport operations.

Reporting the City's Most Significant Funds

Fund Financial Statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state laws or bond covenants. The Council establishes other funds to control and manage money for particular purposes or as evidence of meeting legal responsibilities for using certain taxes, grants and other money. The City has two types of funds: governmental funds and proprietary funds.

Governmental Funds. The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the available balances at year-end. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there has been an increase or decrease in financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationship or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are detailed in a reconciliation following the fund financial statements. The basic governmental fund financial statements can be found on pages 14-16 of this report.

A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the annual appropriated budget. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining fund statements and schedules elsewhere in this report.

Proprietary Funds. The City charges customers for the services it provides through service delivery agreements to outside customers or through customer service agreements within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same manner that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are identical to the business-type activities that are reported in the government-wide statements, but with additional detail and information, such as cash flows. Individual proprietary fund data is found on pages 20 – 23 of this report.

The City maintains one type of proprietary fund-Enterprise Funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the Enterprise Funds to account for water, wastewater, storm water drainage, solid waste, and airport operations. All activities associated with providing such services are accounted for in these funds, including administration, operation, maintenance, debt service, capital improvements, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and funds financial statements. The notes to the financial statements can be found on pages 24 – 47 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information in the form of combining fund statements and schedules for nonmajor funds. These are presented immediately following the notes to the financial statements beginning on page 49 of this report.

THE CITY AS A WHOLE

GOVERNMENT WIDE FINANCIAL ANALYSIS

The City's combined net assets were \$60,460,734 as of September 30, 2012, an increase of 4.3% compared to fiscal year ending 2011. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Analyzing the net assets and net expenses of governmental and business-type activities separately, the business-type activities net assets are \$34,671,625, an increase of \$1,869,799 over prior year. The governmental activities net assets are \$25,789,109, an increase of \$605,677 over prior year.

By far, the largest portion of the City's net assets (76 percent) reflects its investments in capital assets (e.g., land, buildings, machinery, equipment and infrastructure) less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, \$1,292,751, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$13,228,629, may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2012, the City is able to report positive balances in all three categories of net assets, both for government as a whole, as well as for its separate governmental and business-type activities. The same held true for the prior fiscal year. Overall, the City had an increase in net assets of \$2,475,476.

CITY OF STEPHENVILLE'S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 12,948,381	\$ 9,231,566	\$ 7,264,987	\$ 7,466,296	\$ 20,213,368	\$ 16,697,862
Capital assets	19,478,800	18,850,089	47,566,191	47,439,098	67,044,991	66,289,187
Total assets	<u>32,427,181</u>	<u>28,081,655</u>	<u>54,831,178</u>	<u>54,905,394</u>	<u>87,258,359</u>	<u>82,987,049</u>
Current liabilities	590,835	420,768	852,326	968,823	1,443,161	1,389,591
Non Current liabilities	6,047,237	2,470,159	19,307,227	21,119,385	25,354,464	23,589,544
Total liabilities	<u>6,638,072</u>	<u>2,890,927</u>	<u>20,159,553</u>	<u>22,088,208</u>	<u>26,797,625</u>	<u>24,979,135</u>
Net Assets:						
Invested in capital assets, net of related debt	17,500,689	16,605,859	28,438,665	26,538,623	45,939,354	43,144,482
Restricted	450,527	420,877	842,224	714,547	1,292,751	1,135,424
Unrestricted	<u>7,837,893</u>	<u>8,156,696</u>	<u>5,390,736</u>	<u>5,548,656</u>	<u>13,228,629</u>	<u>13,705,352</u>
Total net assets	<u>\$ 25,789,109</u>	<u>\$ 25,183,432</u>	<u>\$ 34,671,625</u>	<u>\$ 32,801,826</u>	<u>\$ 60,460,734</u>	<u>\$ 57,985,258</u>

Governmental Activities. The table on the following page provides a summary of the City's operations for the year ended September 30, 2012, with comparative totals for the year ended September 30, 2011. Governmental activities increased the City's net assets by \$605,677 or 24% of the total growth in net assets.

The City's total revenues for governmental activities increased from the previous year by \$963,031 or 8%. General revenues increased \$846,302 or 8% compared to prior year.

The ad valorem tax revenue increased \$258,904 or 6% compared to prior year. This increase was due primarily to a change in the tax rate from .4600 to .4850 per \$100 assessed valuation. A 1.4% increase in the net assessed taxable value also contributed to this increase.

Sales tax revenue increased \$574,901 or 12% compared to the prior year. This increase was primarily due to the economic development incentives given to Tejas Tubular and FMC as well as the continued growth at Tarleton State University.

CITY OF STEPHENVILLE'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 1,949,792	\$ 1,722,659	\$ 6,954,206	\$ 7,092,932	\$ 8,903,998	\$ 8,815,591
Operating grants	29,142	40,015	7,868	5,184	37,010	45,199
Capital grants and contributions	159,402	258,933	813,212	528,471	972,614	787,404
General revenues:						
Property taxes	4,381,371	4,122,467	-	-	4,381,371	4,122,467
Sales taxes	5,191,213	4,616,312	-	-	5,191,213	4,616,312
Franchise taxes	1,122,934	1,120,678	-	-	1,122,934	1,120,678
Other taxes	393,461	363,645	-	-	393,461	363,645
Gain on sale of capital assets	-	12,159	-	-	-	12,159
Investment earnings	14,651	13,517	7,716	5,151	22,367	18,668
Miscellaneous	18,320	26,870	-	-	18,320	26,870
Total revenues	<u>13,260,286</u>	<u>12,297,255</u>	<u>7,783,002</u>	<u>7,631,738</u>	<u>21,043,288</u>	<u>19,928,993</u>
Expenses:						
General government	1,518,207	1,374,221	-	-	1,518,207	1,374,221
Public safety	6,496,290	6,274,700	-	-	6,496,290	6,274,700
Streets	1,567,117	1,479,381	-	-	1,567,117	1,479,381
Culture and recreation	2,509,599	2,522,284	-	-	2,509,599	2,522,284
Community development	433,360	374,335	-	-	433,360	374,335
Interest on long-term debt	151,197	97,809	-	-	151,197	97,809
Water and wastewater	-	-	4,833,953	4,846,996	4,833,953	4,846,996
Storm water drainage	-	-	562,207	600,859	562,207	600,859
Sanitary landfill	-	-	313,978	313,982	313,978	313,982
Airport	-	-	181,904	160,803	181,904	160,803
Total expenses	<u>12,675,770</u>	<u>12,122,730</u>	<u>5,892,042</u>	<u>5,922,640</u>	<u>18,567,812</u>	<u>18,045,370</u>
Increases in net assets before transfers	584,516	174,525	1,890,960	1,709,098	2,475,476	1,883,623
Transfers	<u>21,161</u>	<u>(137,203)</u>	<u>(21,161)</u>	<u>137,203</u>	<u>-</u>	<u>-</u>
Change in net assets	605,677	37,322	1,869,799	1,846,301	2,475,476	1,883,623
Net assets-beginning	<u>25,183,432</u>	<u>25,146,110</u>	<u>32,801,826</u>	<u>30,955,525</u>	<u>57,985,258</u>	<u>56,101,635</u>
Net assets-ending	<u>\$ 25,789,109</u>	<u>25,183,432</u>	<u>34,671,625</u>	<u>32,801,826</u>	<u>60,460,734</u>	<u>57,985,258</u>

Business-type Activities. Net assets from business-type activities increased by \$1,869,799 or 6% from \$32,801,826 to \$34,671,625, accounting for 76% of the total growth in net assets. The change in net assets of business-type activities remained relatively consistent with the prior year due to the offsetting effects of changes in revenues and transfers.

Revenues of the City's business-type activities were approximately \$7.8 million for the fiscal year ended September 30, 2012. Revenues increased approximately \$151,264 or 2% compared to the prior fiscal year. The increase was primarily due to the flow of resources between governmental activities and business-type activities through transfers reversed from the prior year because of a decrease in grant-matching requirements normally funded by governmental activities.

Expenses for the City's business-type activities decreased approximately \$30,598 or 1%. Net Assets from business-type activities increased by \$1,869,799 or 6 percent, from \$32,801,826 to \$34,671,625, accounting for the majority of the total growth in net assets.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$11,855,870, an increase of \$3,397,337 from the prior year. Approximately 64% of this total amount, \$7,632,024, constitutes assigned and unassigned fund balance, which is available for spending at the City's discretion. The remaining fund balance is nonspendable or restricted to indicate that it is not available for new spending. Refer to page 14 of this report for a more detailed presentation of governmental fund balances.

In the General Fund, the City budgeted for a decrease in the fund balance on a budget basis of \$2,587,206, but due to actual revenues being more than budgeted and actual expenditures being less than budgeted, the fund balance only decreased by \$427,744 during the current fiscal year. Sales tax collections increased by 12% from the previous year but the City collected \$665,713 or 15% more than budgeted. Other actual revenues collected were also higher than budgeted: 1) current year and delinquent property taxes were collected at higher rates than projected to generate \$77,157; 2) licenses and permit fees were \$36,217 more than budgeted; and 3) service charges were also higher than budgeted by \$123,799. Expenditures were lower than budgeted across all functions.

The fund balance of the Capital Projects Fund was \$4,295,982 as of September 30, 2012, an increase of \$3,809,747 as compared to the fiscal year ended September 30, 2011. The increase resulted from the issuance of certificates of obligation for the purpose of constructing and improving roads and constructing and equipping a fire station.

The Debt Service Fund has an ending fund balance of \$120,405, an increase of 13 percent over the prior year, all of which is reserved for the repayment of debt.

The Special Revenue Funds have a fund balance of \$319,153, an increase of 1 percent over the prior year, all of which is restricted for the special programs defined by revenue source.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the City's Enterprise Funds at the end of the year amounted to \$5,390,736. The increase in net assets was \$1,869,799. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

During the year there was a \$1,082,528 increase in appropriations between the original budget and final amended budget. Following are the main components of the increase:

- \$ 67,750 additional appropriation to replace city-wide telephone system
- \$130,661 additional appropriation for an Energy Efficient Light Project.
- \$320,000 additional appropriation for street reconstruction.
- \$500,000 additional appropriation to begin construction of Fire Station #2.

Even with these increases in appropriations, the excess in revenues during the year was sufficient to fund these increases without reducing the budgeted General Fund fund balance.

Actual expenditures on a budgetary basis were \$11,982,239 compared to the final budget expenditures of \$13,191,675. The \$1,209,436 variance was primarily attributable to capital projects not initiated during the year, due to close monitoring of expenditures by departments and performing better than anticipated. Actual revenues on a budgetary basis were \$11,993,955 compared to the final budget of \$11,087,269. The \$906,686 variance was due primarily to increases in taxes (sales and property), ambulance revenue and licenses/permit fees.

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2012, amounts to \$67,044,991 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, vehicles and equipment, park facilities and infrastructure.

Major capital asset events occurring during the current fiscal year included the following:

- Bosque River Trail \$122,649;
- New Fire Truck \$368,361;
- Water Line Replacement \$185,500;
- Major Thoroughfare Renovation Project \$310,000 and
- Construction in Progress - Fire Station #2 \$618,951

CITY OF STEPHENVILLE'S CAPITAL ASSETS AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land	\$ 2,323,057	\$ 2,323,057	\$ 1,083,120	\$ 909,278	\$ 3,406,177	\$ 3,232,335
Buildings and improvements	5,388,783	4,750,224	18,679,775	17,606,457	24,068,558	22,356,681
Equipment	6,997,564	6,408,502	2,949,971	2,631,963	9,947,535	9,040,465
Infrastructure	18,761,094	18,205,713	50,796,920	50,662,037	69,558,014	68,867,750
Construction in progress			72,368	100,249	72,368	100,249
Less: accumulated depreciation	<u>(13,991,698)</u>	<u>(12,837,407)</u>	<u>(26,015,963)</u>	<u>(24,470,886)</u>	<u>(40,007,661)</u>	<u>(37,308,293)</u>
Total Capital Assets	<u>\$ 19,478,800</u>	<u>\$ 18,850,089</u>	<u>\$ 47,566,191</u>	<u>\$ 47,439,098</u>	<u>\$ 67,044,991</u>	<u>\$ 66,289,187</u>

Additional information on the City's capital assets can be found on page 36 – 37 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total bonded debt of \$24,772,865. Of this amount, \$5,745,000 represents bonded debt backed by the full faith and credit of the City, \$11,410,000 represents utility revenue bonds secured by water and sewer revenues and \$127,865 represents revenue bonds secured by airport revenues, and \$7,490,000 secured by storm water drainage revenues.

OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Certificates of obligation	\$ 5,745,000	\$ 2,185,000	\$ -	\$ -	\$ 5,745,000	\$ 2,185,000
Revenue bonds payable	<u>-</u>	<u>-</u>	<u>19,027,865</u>	<u>20,761,865</u>	<u>19,027,865</u>	<u>20,761,865</u>
Total Debt	<u>\$ 5,745,000</u>	<u>\$ 2,185,000</u>	<u>\$ 19,027,865</u>	<u>\$ 20,761,865</u>	<u>\$ 24,772,865</u>	<u>\$ 22,946,865</u>

The City's General Obligation, Tax and Certificates of Obligation Bond ratings are listed below.

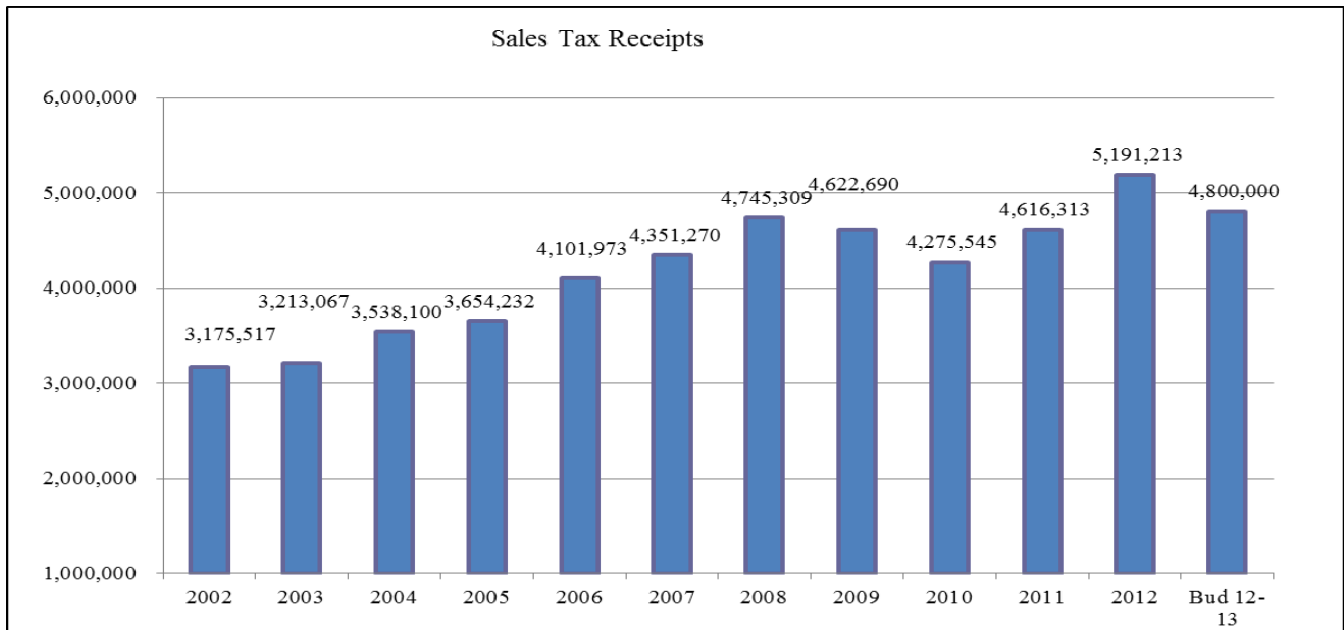
	Moody's Investors Service	Standard and Poor's
General Obligation Bonds	A3	A+

Additional information on the City's long term-debt can be found in pages 38 – 41 this report.

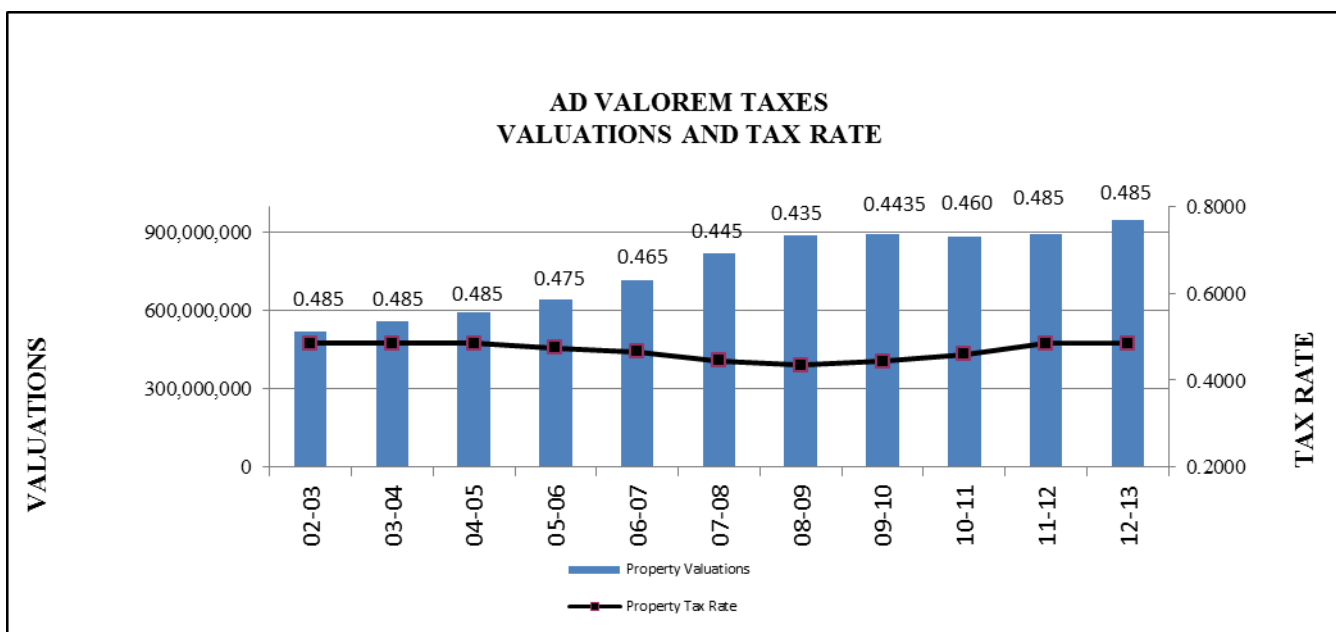
ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The unemployment rate for the City of Stephenville as of the fiscal year-end was 5.2% compared to the prior year rate of 6.5% which is an indication that the local economy is starting to stabilize. This rate compares favorably with state and national unemployment levels.

Sales tax collections for 2011-2012 were up by 12% compared to the previous year and collections still exceeded budget by \$665,713. Economy seems to be on a rebound but we are still taking a conservative approach in determining estimated collections for the upcoming budget year.



The above factors were considered in preparing the City of Stephenville's budget for the 2012-13 fiscal year. Accordingly, next year's budget does not include an increase in the property tax rate and will remain at \$.4850 per \$100 valuation. Certified taxable property value for 2012 is \$946 million. This is a 5.72% increase over the last year's values, or \$51 million. The largest portion of the increase, \$14.4 million, is new property coming onto the tax rolls and the remainder of the increase due to the reevaluation of existing property.



The City uses reserves from the General Fund to supplement capital projects during the year as needs arise and where favorable unit pricing is received on such projects. Additionally, the City's Fiscal Management Practices call for the designation of any surplus of revenues over expenses at fiscal year-end as a means of providing resources for major capital projects. There are ample funds for transfers during 2013, should the City Council so desire, and still retain the minimum fund balance provisions established by the Fiscal Management Practices.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Walter G. Wood, Director of Finance, 298 West Washington, Stephenville, Texas 76401-4257 or call (254) 918-1211.

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BASIC FINANCIAL STATEMENTS

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CITY OF STEPHENVILLE, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 11,117,966	\$ 4,944,046	\$ 16,062,012
Receivables (net of allowances for uncollectibles):			
Taxes	1,178,113	-	1,178,113
Accounts	577,153	1,152,788	1,729,941
Inventory	17,399	-	17,399
Restricted cash and cash equivalents	-	1,021,165	1,021,165
Deferred charges	57,750	146,988	204,738
Capital assets:			
Land	2,323,057	1,083,120	3,406,177
Buildings and improvements	5,388,783	18,679,775	24,068,558
Machinery and equipment	6,997,564	2,949,971	9,947,535
Infrastructure/water and wastewater distribution	18,761,094	50,796,920	69,558,014
Construction in progress	-	72,368	72,368
Less: accumulated depreciation	(13,991,698)	(26,015,963)	(40,007,661)
Total capital assets	<u>19,478,800</u>	<u>47,566,191</u>	<u>67,044,991</u>
Total assets	<u>32,427,181</u>	<u>54,831,178</u>	<u>87,258,359</u>
LIABILITIES			
Accounts payable	435,622	420,703	856,325
Accrued liabilities	103,036	14,708	117,744
Accrued interest payable	17,840	186,126	203,966
Customer deposits	-	216,069	216,069
Unearned revenue	34,337	14,720	49,057
Noncurrent liabilities:			
Due within one year	687,060	1,939,694	2,626,754
Due in more than one year	<u>5,360,177</u>	<u>17,367,533</u>	<u>22,727,710</u>
Total liabilities	<u>6,638,072</u>	<u>20,159,553</u>	<u>26,797,625</u>
NET ASSETS			
Invested in capital assets, net of related debt	17,500,689	28,438,665	45,939,354
Restricted for:			
Retirement of long-term debt	111,086	818,439	929,525
Airport development	-	23,785	23,785
Tourism	252,758	-	252,758
Child and public safety	42,036	-	42,036
Court technology	44,647	-	44,647
Unrestricted	<u>7,837,893</u>	<u>5,390,736</u>	<u>13,228,629</u>
Total net assets	<u>\$ 25,789,109</u>	<u>\$ 34,671,625</u>	<u>\$ 60,460,734</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF STEPHENVILLE, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 1,518,207	\$ 219,082	\$ 4,800	\$ 61,283	\$(1,233,042)	\$ -	\$(1,233,042)
Public safety	6,496,290	1,077,514	6,249	-	(5,412,527)	-	(5,412,527)
Streets	1,567,117	95,954	-	-	(1,471,163)	-	(1,471,163)
Culture and recreation	2,509,599	363,650	18,093	98,119	(2,029,737)	-	(2,029,737)
Community development	433,360	193,592	-	-	(239,768)	-	(239,768)
Interest on long-term debt	151,197	-	-	-	(151,197)	-	(151,197)
Total governmental activities	<u>12,675,770</u>	<u>1,949,792</u>	<u>29,142</u>	<u>159,402</u>	<u>(10,537,434)</u>	<u>-</u>	<u>(10,537,434)</u>
Business-type activities:							
Water and wastewater	4,833,953	6,055,936	-	-	-	1,221,983	1,221,983
Sanitary landfill	313,978	200,546	-	-	-	(113,432)	(113,432)
Airport	181,904	93,493	7,868	813,212	-	732,669	732,669
Storm water drainage	562,207	604,231	-	-	-	42,024	42,024
Total business-type activities	<u>5,892,042</u>	<u>6,954,206</u>	<u>7,868</u>	<u>813,212</u>	<u>-</u>	<u>1,883,244</u>	<u>1,883,244</u>
Total	<u>\$ 18,567,812</u>	<u>\$ 8,903,998</u>	<u>\$ 37,010</u>	<u>\$ 972,614</u>	<u>(10,537,434)</u>	<u>1,883,244</u>	<u>(8,654,190)</u>
General revenues:							
Taxes:							
Property - general purposes					3,787,828	-	3,787,828
Property - debt service					593,543	-	593,543
Sales					5,191,213	-	5,191,213
Franchise					1,122,934	-	1,122,934
Other					393,461	-	393,461
Investment earnings					14,651	7,716	22,367
Miscellaneous					18,320	-	18,320
Transfers					21,161	(21,161)	-
Total general revenues and transfers					<u>11,143,111</u>	<u>(13,445)</u>	<u>11,129,666</u>
Change in net assets					605,677	1,869,799	2,475,476
Net assets, beginning					<u>25,183,432</u>	<u>32,801,826</u>	<u>57,985,258</u>
Net assets, ending					<u>\$ 25,789,109</u>	<u>\$ 34,671,625</u>	<u>\$ 60,460,734</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF STEPHENVILLE, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2012

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 6,377,653	\$ 4,305,688	\$ 434,625	\$ 11,117,966
Receivables (net of allowance for uncollectibles):				
Taxes	1,057,597	-	120,516	1,178,113
Accounts	479,034	98,119	-	577,153
Inventory	17,399	-	-	17,399
Total assets	<u>7,931,683</u>	<u>4,403,807</u>	<u>555,141</u>	<u>12,890,631</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	241,023	107,825	84,560	433,408
Accrued liabilities	103,036	-	-	103,036
Deferred revenue	467,294	-	28,809	496,103
Other liabilities	-	-	2,214	2,214
Total liabilities	<u>811,353</u>	<u>107,825</u>	<u>115,583</u>	<u>1,034,761</u>
Fund balances:				
Nonspendable	17,399	-	-	17,399
Restricted for:				
Retirement of long-term debt	-	-	120,405	120,405
Tourism	-	-	232,470	232,470
Child and public safety	-	-	42,036	42,036
Court technology	-	-	44,647	44,647
Street projects	-	1,385,839	-	1,385,839
Construction of fire station	-	2,381,050	-	2,381,050
Assigned for:				
Purchase of emergency ambulance	139,442	-	-	139,442
Right of way	500,000	-	-	500,000
Capital projects	500,000	529,093	-	1,029,093
Grant matching	500,000	-	-	500,000
Facilities	300,000	-	-	300,000
Economic development	50,000	-	-	50,000
Unassigned	<u>5,113,489</u>	<u>-</u>	<u>-</u>	<u>5,113,489</u>
Total fund balances	<u>7,120,330</u>	<u>4,295,982</u>	<u>439,558</u>	<u>11,855,870</u>
Total liabilities and fund balances	<u>\$ 7,931,683</u>	<u>\$ 4,403,807</u>	<u>\$ 555,141</u>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.				19,478,800
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.				461,766
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.				(6,007,327)
Net assets of governmental activities				<u>\$ 25,789,109</u>

The notes to the financial statements are an integral part of this statement.

CITY OF STEPHENVILLE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	\$ 3,782,791	\$ -	\$ 592,403	\$ 4,375,194
Sales	5,191,213	-	-	5,191,213
Franchise	1,122,934	-	-	1,122,934
Other	39,171	-	334,002	373,173
Service charges	1,228,959	62,378	-	1,291,337
Fines and forfeitures	283,762	-	35,137	318,899
Licenses and permits	182,517	-	-	182,517
Intergovernmental	135,551	98,119	-	233,670
Investment earnings	8,868	5,010	773	14,651
Miscellaneous	18,189	-	-	18,189
Total revenues	<u>11,993,955</u>	<u>165,507</u>	<u>962,315</u>	<u>13,121,777</u>
EXPENDITURES				
Current:				
General government	1,504,855	-	-	1,504,855
Public safety	6,193,924	-	16,968	6,210,892
Streets	968,236	-	-	968,236
Culture and recreation	1,917,708	-	350,678	2,268,386
Community development	414,769	-	-	414,769
Debt service:				
Principal	-	-	440,000	440,000
Interest and fiscal charges	-	-	139,305	139,305
Bond issuance costs	-	45,000	-	45,000
Capital outlay	982,747	810,760	-	1,793,507
Total expenditures	<u>11,982,239</u>	<u>855,760</u>	<u>946,951</u>	<u>13,784,950</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>11,716</u>	<u>(690,253)</u>	<u>15,364</u>	<u>(663,173)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	241,161	500,000	-	741,161
Transfers out	(720,000)	-	-	(720,000)
Proceeds from sale of capital assets	27,851	-	-	27,851
Proceeds from debt issuance	-	4,000,000	-	4,000,000
Proceeds from insurance	11,498	-	-	11,498
Total other financing sources (uses)	<u>(439,490)</u>	<u>4,500,000</u>	<u>-</u>	<u>4,060,510</u>
NET CHANGE IN FUND BALANCES	(427,774)	3,809,747	15,364	3,397,337
FUND BALANCES, BEGINNING	<u>7,548,104</u>	<u>486,235</u>	<u>424,194</u>	<u>8,458,533</u>
FUND BALANCES, ENDING	<u>\$ 7,120,330</u>	<u>\$ 4,295,982</u>	<u>\$ 439,558</u>	<u>\$ 11,855,870</u>

The notes to the financial statements are an integral part of this statement.

CITY OF STEPHENVILLE, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Amounts reported for governmental activities in the Statement of Activities (page 13) are different because:

Net change in fund balances - total governmental funds (page 15)	\$ 3,397,337
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	661,985
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.	(33,274)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	123,599
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	(3,519,750)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(24,220)
Change in net assets of governmental activities (page 13)	\$ <u>605,677</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF STEPHENVILLE, TEXAS

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Taxes	\$ 8,842,383	\$ 9,386,134	\$ 10,136,109	\$ 749,975
Service charges	973,225	1,105,160	1,228,959	123,799
Fines and forfeitures	250,000	295,000	283,762	(11,238)
Licenses and permits	146,300	146,300	182,517	36,217
Intergovernmental	68,600	133,675	135,551	1,876
Investment earnings	5,500	5,500	8,868	3,368
Miscellaneous	7,200	15,500	18,189	2,689
Total revenues	10,293,208	11,087,269	11,993,955	906,686
EXPENDITURES				
Current:				
General government:				
City council	59,176	56,976	45,996	10,980
City administrator	137,497	137,497	135,843	1,654
City secretary	90,341	94,482	91,366	3,116
Emergency management	6,850	9,450	8,634	816
Municipal buildings	128,245	193,608	164,189	29,419
Municipal Service Center	101,420	103,019	79,598	23,421
Financial administration and accounting	366,882	433,893	431,476	2,417
Purchasing	60,109	61,566	58,136	3,430
Tax assessment and collection	119,000	120,800	119,124	1,676
Legal counsel	66,489	121,489	118,648	2,841
Municipal court	138,770	153,770	153,762	8
Human resources	109,224	107,693	98,083	9,610
Total general government	1,384,003	1,594,243	1,504,855	89,388
Public safety:				
Fire and ambulance administration	213,407	249,533	239,654	9,879
Fire prevention and investigation	160,381	165,629	88,827	76,802
Fire suppression	1,079,165	1,140,331	1,069,230	71,101
Emergency medical services	1,133,535	1,094,140	1,088,342	5,798
Volunteer	29,841	29,841	16,372	13,469
Police administration	123,250	126,123	121,013	5,110
Police patrol	1,895,093	1,949,120	1,835,731	113,389
Police communications	436,555	453,155	436,845	16,310
Police records	272,105	278,502	259,604	18,898
Criminal investigation	537,616	556,018	506,808	49,210

(continued)

CITY OF STEPHENVILLE, TEXAS

GENERAL FUND

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
EXPENDITURES (Continued)				
Current:				
Public safety (continued):				
Police reserve	\$ 226,874	\$ 233,884	\$ 230,313	\$ 3,571
Animal control	122,433	129,126	119,482	9,644
Public safety facility	204,589	205,710	181,703	24,007
Total public safety	<u>6,434,844</u>	<u>6,611,112</u>	<u>6,193,924</u>	<u>417,188</u>
Streets:				
Street maintenance	<u>991,743</u>	<u>1,092,007</u>	<u>968,236</u>	<u>123,771</u>
Total streets	<u>991,743</u>	<u>1,092,007</u>	<u>968,236</u>	<u>123,771</u>
Culture and recreation:				
Recreation administration	687,477	760,801	784,154	(23,353)
Park maintenance	443,123	498,273	442,860	55,413
Cemeteries	136,491	140,812	131,776	9,036
Library	211,198	244,080	229,459	14,621
Senior citizens center	130,198	132,622	129,489	3,133
Aquatic Center	<u>197,800</u>	<u>199,500</u>	<u>199,970</u>	<u>(470)</u>
Total culture and recreation	<u>1,806,287</u>	<u>1,976,088</u>	<u>1,917,708</u>	<u>58,380</u>
Community development:				
Community development planning	182,909	187,339	178,635	8,704
Community development inspection	204,325	206,944	151,641	55,303
Code enforcement	<u>80,036</u>	<u>81,036</u>	<u>84,493</u>	<u>(3,457)</u>
Total community development	<u>467,270</u>	<u>475,319</u>	<u>414,769</u>	<u>60,550</u>
Total current	<u>11,084,147</u>	<u>11,748,769</u>	<u>10,999,492</u>	<u>749,277</u>

(continued)

CITY OF STEPHENVILLE, TEXAS

GENERAL FUND

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
EXPENDITURES (Continued)				
Capital outlay:				
General government:				
Municipal buildings	\$ -	\$ 70,050	\$ 70,813	\$ (763)
Total general government	-	70,050	70,813	(763)
Public safety:				
Fire and ambulance administration	-	3,556	3,523	33
Fire suppression	380,000	380,000	368,362	11,638
Emergency medical services	140,000	152,300	13,183	139,117
Police patrol	95,000	95,000	101,917	(6,917)
Police communications	-	12,000	11,870	130
Total public safety	615,000	642,856	498,855	144,001
Streets:				
Street maintenance	290,000	610,000	392,191	217,809
Total streets	290,000	610,000	392,191	217,809
Culture and recreation:				
Park maintenance	120,000	120,000	20,888	99,112
Total culture and recreation	120,000	120,000	20,888	99,112
Total capital outlay	1,025,000	1,442,906	982,747	460,159
Total expenditures	12,109,147	13,191,675	11,982,239	1,209,436
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,815,939)	(2,104,406)	11,716	2,116,122
OTHER FINANCING SOURCES (USES)				
Transfers in	206,000	206,000	241,161	35,161
Transfers out	-	(720,000)	(720,000)	-
Proceeds from sale of capital assets	7,000	26,700	27,851	1,151
Proceeds from insurance	-	4,500	11,498	6,998
Total other financing sources (uses)	213,000	(482,800)	(439,490)	43,310
NET CHANGE IN FUND BALANCE	(1,602,939)	(2,587,206)	(427,774)	2,159,432
FUND BALANCE, BEGINNING	7,548,104	7,548,104	7,548,104	-
FUND BALANCE, ENDING	\$ 5,945,165	\$ 4,960,898	\$ 7,120,330	\$ 2,159,432

The notes to the financial statements are an integral part of this statement.

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CITY OF STEPHENVILLE, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

SEPTEMBER 30, 2012

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Storm Water Drainage	Other Funds	Total
ASSETS				
Current assets:				
Cash and investments	\$ 3,729,493	\$ 1,189,800	\$ 24,753	\$ 4,944,046
Accounts receivable - net	1,082,053	67,203	3,532	1,152,788
Total current assets	4,811,546	1,257,003	28,285	6,096,834
Noncurrent assets:				
Restricted cash and cash equivalents	801,084	196,296	23,785	1,021,165
Deferred charges	76,266	70,722	-	146,988
Capital assets:				
Land	163,721	-	919,399	1,083,120
Buildings and improvements	2,367,988	10,213,022	6,098,765	18,679,775
Equipment	1,675,581	-	1,274,390	2,949,971
Water and wastewater distribution	50,796,920	-	-	50,796,920
Construction in progress	-	-	72,368	72,368
Less: accumulated depreciation	(23,259,151)	(764,064)	(1,992,748)	(26,015,963)
Total capital assets	31,745,059	9,448,958	6,372,174	47,566,191
Total noncurrent assets	32,622,409	9,715,976	6,395,959	48,734,344
Total assets	37,433,955	10,972,979	6,424,244	54,831,178
LIABILITIES				
Current liabilities:				
Accounts payable	417,000	-	3,703	420,703
Accrued liabilities	12,948	-	1,760	14,708
Accrued interest	141,545	37,396	7,185	186,126
Customer deposits	214,869	-	1,200	216,069
Unearned revenue	-	-	14,720	14,720
Compensated absences payable	31,900	-	3,133	35,033
Capital lease	-	-	99,661	99,661
Bonds payable	1,550,000	235,000	20,000	1,805,000
Total current liabilities	2,368,262	272,396	151,362	2,792,020
Long-term liabilities:				
Compensated absences payable	11,257	-	92	11,349
Bonds payable	9,860,000	7,255,000	107,865	17,222,865
Liability for landfill closure	-	-	133,319	133,319
Total long-term liabilities	9,871,257	7,255,000	241,276	17,367,533
Total liabilities	12,239,519	7,527,396	392,638	20,159,553
NET ASSETS				
Invested in capital assets, net of related debt	20,335,059	1,958,958	6,144,648	28,438,665
Restricted for debt service	659,539	158,900	-	818,439
Restricted for airport development	-	-	23,785	23,785
Unrestricted	4,199,838	1,327,725	(136,827)	5,390,736
Total net assets	\$ 25,194,436	\$ 3,445,583	\$ 6,031,606	\$ 34,671,625

The notes to the financial statements are an integral part of this statement.

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CITY OF STEPHENVILLE, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Storm Water Drainage	Other Funds	Total
OPERATING REVENUES				
Water sales	\$ 3,420,745	\$ -	\$ -	\$ 3,420,745
Wastewater charges	2,421,952	-	-	2,421,952
Tap and collection fees	143,861	-	-	143,861
Delinquent charges	38,590	8,363	-	46,953
Gate charges	-	-	199,704	199,704
Hanger rental	-	-	88,010	88,010
Storm water drainage fees	-	595,868	-	595,868
Other service charges	30,788	-	6,325	37,113
Total operating revenues	<u>6,055,936</u>	<u>604,231</u>	<u>294,039</u>	<u>6,954,206</u>
OPERATING EXPENSES				
Personnel services	1,067,828	-	132,628	1,200,456
Contractual services	1,060,392	-	34,955	1,095,347
Utilities	443,314	-	26,574	469,888
Repairs and maintenance	325,643	-	19,125	344,768
Other	209,358	201	40,152	249,711
Depreciation	1,291,841	255,245	229,420	1,776,506
Total operating expenses	<u>4,398,376</u>	<u>255,446</u>	<u>482,854</u>	<u>5,136,676</u>
OPERATING INCOME (LOSS)	<u>1,657,560</u>	<u>348,785</u>	<u>(188,815)</u>	<u>1,817,530</u>
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	6,138	1,547	31	7,716
Interest and fiscal charges on debt	(487,963)	(306,761)	(13,028)	(807,752)
Intergovernmental	-	-	7,868	7,868
Gain on sale of assets	52,386	-	-	52,386
Total nonoperating revenues (expenses)	<u>(429,439)</u>	<u>(305,214)</u>	<u>(5,129)</u>	<u>(739,782)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	1,228,121	43,571	(193,944)	1,077,748
CAPITAL CONTRIBUTIONS	-	-	813,212	813,212
TRANSFERS IN	-	-	220,000	220,000
TRANSFERS OUT	<u>(241,161)</u>	<u>-</u>	<u>-</u>	<u>(241,161)</u>
CHANGE IN NET ASSETS	986,960	43,571	839,268	1,869,799
TOTAL NET ASSETS, BEGINNING	<u>24,207,476</u>	<u>3,402,012</u>	<u>5,192,338</u>	<u>32,801,826</u>
TOTAL NET ASSETS, ENDING	<u>\$ 25,194,436</u>	<u>\$ 3,445,583</u>	<u>\$ 6,031,606</u>	<u>\$ 34,671,625</u>

The notes to the financial statements are an integral part of this statement.

CITY OF STEPHENVILLE, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Storm Water Drainage	Other Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 6,079,630	\$ 599,137	\$ 295,892	\$ 6,974,659
Cash payments to employees	(1,053,229)	-	(132,407)	(1,185,636)
Cash payments to suppliers for goods and services	(2,080,188)	(417)	(119,512)	(2,200,117)
Cash provided by operating activities	<u>2,946,213</u>	<u>598,720</u>	<u>43,973</u>	<u>3,588,906</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund receivables repaid by other funds	12,393	-	-	12,393
Cash received from operating grant	-	-	7,868	7,868
Transfers to other funds	(241,161)	-	-	(241,161)
Cash provided (used) by noncapital financing activities	<u>(228,768)</u>	<u>-</u>	<u>7,868</u>	<u>(220,900)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal payments on capital lease	-	-	(94,460)	(94,460)
Principal payments on bonds	(1,490,000)	(225,000)	(19,000)	(1,734,000)
Interest and fiscal charges on debt	(482,600)	(303,614)	(17,208)	(803,422)
Transfers from other funds for capital acquisition	-	-	220,000	220,000
Proceeds from sale of capital assets	78,100	-	-	78,100
Acquisition and construction of capital assets	(678,908)	(30,000)	(292,505)	(1,001,413)
Cash used by capital and related financing activities	<u>(2,573,408)</u>	<u>(558,614)</u>	<u>(203,173)</u>	<u>(3,335,195)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	<u>6,138</u>	<u>1,547</u>	<u>31</u>	<u>7,716</u>
Cash provided by investing activities	<u>6,138</u>	<u>1,547</u>	<u>31</u>	<u>7,716</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	150,175	41,653	(151,301)	40,527
CASH AND CASH EQUIVALENTS, BEGINNING	<u>4,380,402</u>	<u>1,344,443</u>	<u>199,839</u>	<u>5,924,684</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 4,530,577</u>	<u>\$ 1,386,096</u>	<u>\$ 48,538</u>	<u>\$ 5,965,211</u>
(Including \$801,084 for the Water and Wastewater Fund, \$196,296 for the Storm Water Drainage Fund, and \$23,785 for nonmajor funds in restricted cash and cash equivalents)				

(continued)

CITY OF STEPHENVILLE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Storm Water Drainage	Other Funds	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 1,657,560	\$ 348,785	\$(188,815)	\$ 1,817,530
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	1,291,841	255,245	229,420	1,776,506
Change in assets and liabilities:				
Decrease (increase) in accounts receivable	12,302	(5,094)	2,193	9,401
Increase (decrease) in accounts payable	(41,481)	(216)	(940)	(42,637)
Increase (decrease) in accrued liabilities	675	-	2,311	2,986
Increase (decrease) in unearned revenue	-	-	(640)	(640)
Increase (decrease) in customer deposits	11,392	-	300	11,692
Increase (decrease) in compensated absences	13,924	-	144	14,068
Total adjustments	<u>1,288,653</u>	<u>249,935</u>	<u>232,788</u>	<u>1,771,376</u>
Net cash provided by operating activities	<u>\$ 2,946,213</u>	<u>\$ 598,720</u>	<u>\$ 43,973</u>	<u>\$ 3,588,906</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Contributions of capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 813,212</u>	<u>\$ 813,212</u>

The notes to the financial statements are an integral part of this statement.

CITY OF STEPHENVILLE, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Stephenville, Texas, was incorporated August 6, 1989, and operates as a home rule City. The City operates under a mayor-council form of government and provides the following services as authorized by its charter, general government, public safety (police, fire and EMS), streets, community development (planning and zoning, licensing, permitting and inspection), water and wastewater system, culture and recreation, airport and sanitary landfill.

A. Reporting Entity

The accompanying financial statements comply with the provisions of the GASB Statements No. 14 and 39, "The Financial Reporting Entity," in that the financial statements include all organizations, activities, functions and component units for which the City (the "primary government") is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City. There are no component units which satisfy requirements for blending within the City's financial statements or for discrete presentation.

B. Government-wide Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide Fund Financial Statements (Continued)

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, sales taxes, charges for services, fines and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Governmental Funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in the proprietary fund type) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The City reports the following major governmental funds:

The **General Fund** is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The **Capital Projects Fund** is used to account for financial resources to be used for the acquisition or construction of general major capital facilities. Financing is provided primarily by the sale of general obligation bonds and developer contributions.

The City reports the following major proprietary funds:

The **Water and Wastewater Fund** is used to account for the activities necessary for the provisions of water and wastewater services.

The **Storm Water Drainage Fund** is used to account for the activities necessary for the provisions of storm water drainage services.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and Enterprise Funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and wastewater function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenue. Likewise, general revenue includes all taxes.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities and Net Assets or Equity

Cash and Cash Equivalents

For purpose of presenting the proprietary fund cash flow statement, cash and cash equivalents include cash demand and time deposits and investments with a maturity date within three months of the date acquired by the City.

Investments

State statutes authorize the City to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent; (5) certificates of deposit by state and national banks domiciled in this state that are (a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (b) secured by obligations that are described by (1) – (4); or, (6) fully collateralized direct repurchase agreements having a defined termination date, secured by obligations described by (1) pledged with third-party selected or approved by the City, and placed through a primary government securities dealer.

Investments maturing within one year of date of purchase are stated at cost or amortized cost. All other investments are stated at fair value, which is based on quoted market prices.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

Inventories

All inventories are valued at cost (first-in, first-out method). Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Restricted Assets

Certain bond proceeds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Airport improvements	40
Buildings	20 to 40
Waterworks and sanitation systems	33 1/3
Infrastructure	20
Machinery and equipment	7 to 10

Compensated Absences

The City permits employees to accumulate earned but unused vacation pay benefits. Certain employees previously covered by civil service policies also have carried forward unused sick leave benefits. No liability is reported for unpaid accumulated sick leave for the remaining employees. Vacation pay is accrued when incurred in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. A liability for these amounts is reported in governmental funds only if they have matured (for example, as a result of employee resignations and retirements).

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effect interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as expenditures.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by ordinance of the City Council, the City's highest level of decision making authority. These amounts cannot be used for any other purpose unless the Council approves a new ordinance to remove or change the specified use for which the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

Fund Balance Classification (Continued)

- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, “Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$6,007,327 difference are as follows:

General obligations	\$ 5,745,000
Accrued interest payable	17,840
Compensated absences	302,237
Deferred charges	<u>(57,750)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 6,007,327</u>

Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental fund* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$661,985 difference are as follows:

Capital outlay	\$ 1,907,864
Depreciation expense	<u>(1,245,879)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 661,985</u>

Another element of that reconciliation states, “Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this \$123,599 difference are as follows:

Property taxes	\$ 6,177
Occupancy taxes	20,288
Ambulance charges for services	117,055
Municipal court fines	<u>(19,921)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 123,599</u>

(continued)

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities (Continued)

Another element of that reconciliation states that, “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$88,200 difference are as follows:

Accrued interest	\$ 7,142
Retainage payment	(59,230)
Compensated absences	<u>76,308</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 24,220</u>

Another element of that reconciliation states that, “The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$3,455,770 difference are as follows:

Issuance of general obligation bonds	\$ 4,000,000
Issuance costs deferred	(45,000)
Principal repayments on general obligation bonds	(440,000)
Amortization of deferred charges	<u>4,750</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 3,519,750</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the General Fund, Special Revenue Funds, and the Debt Service Fund. All annual appropriations lapse at the end of each fiscal year. Budgets are adopted for the proprietary funds annually only as a management tool. There are no legally mandated budgetary constraints for the proprietary funds.

(continued)

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

A. Budgets (Continued)

In May of each year, budget preparation packages are distributed to all City agencies. The agencies of the City submit requests for appropriation to the City Administrator before June 15 so that a budget may be prepared. The budget is prepared by department and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. During August, the proposed budget is presented to the City Council for review. The City Council holds one public hearing before August 31 and may add to, subtract from, or change appropriations. Any changes in the budget must be within the revenue and reserves estimated as available by the City Administrator, or the revenue estimates must be changed by an affirmative vote of a majority of the City Council.

The appropriated budget is prepared by fund, function and department. The City's management may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplementary budget appropriations during the year.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances lapse at year-end and do not constitute expenditures or liabilities because the commitments must be reappropriated and honored during the subsequent year.

B. Expenditures over Appropriations

Expenditures exceeded appropriations in the General Fund in various departments. The following overruns were funded by unexpected revenues.

Culture and recreation:		
Recreation administration	\$	23,353
Aquatic center		470
Community development:		
Code enforcement		3,457

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Substantially all deposits and investments are maintained in consolidated cash and investment accounts. Interest income relating to consolidated deposits and investments is allocated to the individual funds monthly based on each fund's prorated share of total consolidated cash, deposits and investments.

Legal provisions generally permit the City to invest in certificates of deposit, repurchase agreements, public funds investment pools, direct obligations of the United States of America or its subdivisions and state and local government securities. During the year ended September 30, 2012, the City did not own any types of securities other than those permitted by statute.

As of September 30, 2012, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Tex Pool	\$ 9,914,660	41
TexStar	<u>6,667,395</u>	44
Total fair value	<u>\$ 16,582,055</u>	
Portfolio weighted average maturity (days)		42

The City's investment pools are 2a7-like pools. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

Under the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Lehman Brothers, Inc. and Federated Investors, Inc. through an agreement with the State of Texas Comptroller of Public Accountants. The State Comptroller is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company authorized to operate TexPool. The fund is rated AAAM by Standard & Poor's.

TexSTAR is a local government investment pool created under the Interlocal Cooperation Act. The fund is rated AAAM by Standard & Poor's and maintains a maturity of 60 days or less, with a maximum maturity of 13 months for any individual security. The fund fulfills all requirements of the Texas Public Funds Investment Act for local government investment pools. TexSTAR is administered by First Southwest Asset Management, Inc. and JP Morgan Chase.

The fair value of the City's position in these pools is the same as the value of the pool shares.

Interest Rate Risk. In accordance with its investment policy, the City manages its exposure to declines in fair market values by limiting the weighted average maturity of its investment portfolios to a maximum of 180 days.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

Custodial Credit Risk. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2012, the City's entire deposit balance was collateralized with securities held by the pledging financial institution or covered by FDIC insurance.

Credit Risk. It is the City's policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization.

B. Receivables

Receivables as of year-end for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Funds			Enterprise Funds			
	General	Capital Projects	Nonmajor Funds	Water and Waste water	Storm Water Drainage	Nonmajor Funds	Total
Receivables:							
Accounts:							
Customers	\$ 3,050	\$ -	\$ -	\$ 1,494,666	\$ 77,574	\$ 3,532	\$ 1,578,822
Ambulance	1,085,244	-	-	-	-	-	1,085,244
Municipal court fines	1,134,615	-	-	-	-	-	1,134,615
Intergovernmental	-	98,119	-	-	-	-	98,119
Other	51,472	-	-	14,925	-	-	66,397
Taxes:							
Property	110,143	-	19,156	-	-	-	129,299
Sales	965,328	-	-	-	-	-	965,328
Occupancy	-	-	109,156	-	-	-	109,156
Other	28,212	-	-	-	-	-	28,212
Gross receivables	3,378,064	98,119	128,312	1,509,591	77,574	3,532	5,195,192
Less: allowance for uncollectibles	(1,841,433)	-	(7,796)	(427,538)	(10,371)	-	(2,287,138)
Net total receivables	\$ 1,536,631	\$ 98,119	\$ 120,516	\$ 1,082,053	\$ 67,203	\$ 3,532	\$ 2,908,054

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

B. Receivables (Continued)

Governmental funds report *deferred revenue* in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (general fund)	\$ 55,439	\$ -
Delinquent property taxes receivable (debt service)	8,521	-
Other taxes	20,288	-
Ambulance charges for services	180,063	-
Municipal court fines	197,455	-
Other	<u>-</u>	<u>34,337</u>
Total governmental funds	<u>\$ 461,766</u>	<u>\$ 34,337</u>

C. Property Tax Calendar

Property taxes assessed on property valuations as of January 1 each year are levied on the subsequent October 1. Property taxes attach as an enforceable lien on property at the time levied. Property taxes are considered due when levied and become delinquent on the following February 1. On this date, penalties and interest may be assessed by the City.

D. Capital Assets

Capital asset activity for the year ended September 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,323,057	\$ -	\$ -	\$ 2,323,057
Total assets not being depreciated	<u>2,323,057</u>	<u>-</u>	<u>-</u>	<u>2,323,057</u>
Capital assets, being depreciated:				
Buildings and improvements	4,750,224	638,559	-	5,388,783
Machinery and equipment	6,408,502	713,924	124,862	6,997,564
Infrastructure	18,205,713	555,381	-	18,761,094
Total capital assets being depreciated	<u>29,364,439</u>	<u>1,907,864</u>	<u>124,862</u>	<u>31,147,441</u>
Accumulated depreciation:				
Buildings and improvements	1,253,097	112,543	-	1,365,640
Machinery and equipment	4,445,086	410,396	91,588	4,763,894
Infrastructure	7,139,224	722,940	-	7,862,164
Total accumulated depreciation	<u>12,837,407</u>	<u>1,245,879</u>	<u>91,588</u>	<u>13,991,698</u>
Total capital assets being depreciated, net	<u>16,527,032</u>	<u>661,985</u>	<u>33,274</u>	<u>17,155,743</u>
Governmental activities capital assets, net	<u>\$ 18,850,089</u>	<u>\$ 661,985</u>	<u>\$ 33,274</u>	<u>\$ 19,478,800</u>

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 909,278	\$ 173,842	\$ -	\$ 1,083,120
Construction in progress	100,249	72,368	100,249	72,368
Total assets not being depreciated	<u>1,009,527</u>	<u>246,210</u>	<u>100,249</u>	<u>1,155,488</u>
Capital assets, being depreciated:				
Buildings and improvements	17,606,457	1,083,318	10,000	18,679,775
Machinery and equipment	2,631,963	575,151	257,143	2,949,971
Water and wastewater system	50,662,037	194,467	59,584	50,796,920
Total capital assets being depreciated	<u>70,900,457</u>	<u>1,852,936</u>	<u>326,727</u>	<u>72,426,666</u>
Accumulated depreciation:				
Buildings and improvements	2,194,012	423,727	-	2,617,739
Machinery and equipment	1,719,677	210,800	231,429	1,699,048
Water and wastewater system	20,557,197	1,141,979	-	21,699,176
Total accumulated depreciation	<u>24,470,886</u>	<u>1,776,506</u>	<u>231,429</u>	<u>26,015,963</u>
Total capital assets being depreciated, net	<u>46,429,571</u>	<u>76,430</u>	<u>95,298</u>	<u>46,410,703</u>
Business-type activities capital assets, net	<u>\$ 47,439,098</u>	<u>\$ 322,640</u>	<u>\$ 195,547</u>	<u>\$ 47,566,191</u>

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	
General government	\$ 69,163
Public safety	255,627
Streets	598,427
Culture and recreation	316,252
Community development	<u>6,410</u>
Total depreciation expense - governmental activities	<u>\$ 1,245,879</u>
Business-type activities:	
Water and wastewater	\$ 1,291,841
Storm water drainage	255,245
Landfill	106,421
Airport	<u>122,999</u>
Total depreciation expense - business-type activities	<u>\$ 1,776,506</u>

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

E. Interfund Transfers

Interfund transfers during the year ended September 30, 2012, are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Nonmajor enterprise	General	\$ 220,000
Capital projects	General	500,000
General	Water and wastewater	<u>241,161</u>
Total interfund transfers		<u>\$ 961,161</u>

The transfer to nonmajor Enterprise Funds was to fund capital improvements to the airport and landfill. The transfer to the Capital Projects Fund was to fund the construction of a new fire station. The transfer from the Water and Wastewater Fund to the General Fund was for payments in lieu of taxes.

F. Long-term Debt

Changes in Long-term Liabilities

Long-term liability activity from the year ended September 30, 2012, was as follows:

	<u>Balance 09/30/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 09/30/12</u>	<u>Due Within One Year</u>
<u>Governmental activities:</u>					
General obligation bonds	\$ 2,185,000	\$ 4,000,000	\$ 440,000	\$ 5,745,000	\$ 445,000
Retainage payable	59,230	-	59,230	-	-
Compensated absences payable	<u>225,929</u>	<u>323,861</u>	<u>247,553</u>	<u>302,237</u>	<u>242,060</u>
Total governmental activities	<u>\$ 2,470,159</u>	<u>\$ 4,323,861</u>	<u>\$ 746,783</u>	<u>\$ 6,047,237</u>	<u>\$ 687,060</u>
<u>Business-type activities:</u>					
Revenue bonds/certificates of obligation	\$ 20,761,865	\$ -	\$ 1,734,000	\$ 19,027,865	\$ 1,805,000
Capital lease	194,121	-	94,460	99,661	99,661
Estimated landfill closure and postclosure costs	131,085	2,234	-	133,319	-
Compensated absences payable	<u>32,314</u>	<u>50,460</u>	<u>36,392</u>	<u>46,382</u>	<u>35,033</u>
Total business-type activities	<u>\$ 21,119,385</u>	<u>\$ 52,694</u>	<u>\$ 1,864,852</u>	<u>\$ 19,307,227</u>	<u>\$ 1,939,694</u>

The General Fund is generally used to liquidate compensated absences for governmental activities.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities of governmental activities and to refund previous issues. General obligation bonded debt of the City is as follows:

Governmental activities:

\$1,325,000 Combination Tax and Revenue Certificates of Obligation - Series 2008, principal due annually in series through 2015, interest due semi-annually at 4.06%.	\$ 530,000
\$1,500,000 Combination Tax and Revenue Certificates of Obligation - Series 2009, principal due annually in series through 2019, interest due semi-annually at 3.85%.	1,435,000
\$4,000,000 Combination Tax and Revenue Certificates of Obligation - Series 2011, principal due annually in series through 2031, interest due semi-annually at 1.75% - 4.25%.	<u>3,780,000</u>
	<u>\$ 5,745,000</u>

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Revenue Bonds

The City also issues revenue bonds to finance business-type activities, where it pledges net income from service revenue to repay debt. Revenue bonds outstanding as of September 30, 2012, are as follows:

Business-type activities:

\$5,500,000 Combination Tax and Revenue Certificates of Obligation - Series 2001, principal due annually in series through 2016, interest due semi-annually at 4.59%.	\$ 3,520,000
\$1,600,000 Combination Tax and Revenue Certificates of Obligation - Series 2003B, principal due annually in series through 2018, interest due semi-annually at 3.5%.	750,000
\$4,975,000 Combination Tax and Revenue Refunding Bonds - Series 2003, principal due annually in series through 2013, interest due semi-annually at 2.75%.	430,000
\$275,000 Combination Tax and Revenue Certificates of Obligation - Series 2003A, principal due annually in series through 2018, interest due semi-annually at 4.125%.	127,865
\$7,160,000 Combination Tax and Revenue Certificates of Obligation - Series 2004, principal due annually in series through 2019, interest due semi-annually at 3.41%.	5,805,000
\$2,000,000 Combination Tax and Revenue Certificates of Obligation - Series 2006, principal due annually in series through 2016, interest due semi-annually at 3.77%.	905,000
\$4,300,000 Combination Tax and Revenue Certificates of Obligation - Series 2006A, principal due annually in series through 2027, interest due semi-annually at 3.92%.	3,520,000
\$4,130,000 Combination Tax and Revenue Certificates of Obligation - Series 2008, principal due annually in series through 2033, interest due semi-annually at 4.06%.	<u>3,970,000</u>
Total Revenue Bonds	<u>\$ 19,027,865</u>

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Debt Service Requirements

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Fiscal Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 445,000	\$ 136,236	\$ 581,236
2014	465,000	122,977	587,977
2015	405,000	109,797	514,797
2016	425,000	96,941	521,941
2017	410,000	120,097	530,097
2018-2022	1,380,000	588,060	1,968,060
2023-2027	1,125,000	355,406	1,480,406
2028-2031	<u>1,090,000</u>	<u>95,200</u>	<u>1,185,200</u>
Total	\$ <u>5,745,000</u>	\$ <u>1,624,714</u>	\$ <u>7,369,714</u>

Annual debt service requirements to maturity for revenue bonds are as follows:

<u>Fiscal Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,805,000	\$ 727,452	\$ 2,532,452
2014	1,866,000	661,491	2,527,491
2015	1,941,000	583,521	2,524,521
2016	2,027,000	502,201	2,529,201
2017	1,863,000	421,990	2,284,990
2018-2022	4,845,865	1,267,427	6,113,292
2023-2027	1,875,000	760,725	2,635,725
2028-2032	2,290,000	344,495	2,634,495
2033	<u>515,000</u>	<u>10,455</u>	<u>525,455</u>
Total	\$ <u>19,027,865</u>	\$ <u>5,279,757</u>	\$ <u>24,307,622</u>

Capital Lease

The City has entered into a lease agreement as lessee for financing the acquisition of equipment for landfill maintenance. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	<u>Landfill</u>
Asset:	
Machinery and equipment	\$ 473,731
Less: accumulated depreciation	<u>(243,633)</u>
Total	\$ <u>230,098</u>

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Capital Lease (Continued)

The future minimum lease obligation and the net present value of the minimum lease payments as of September 30, 2012, were as follows:

Fiscal Year Ending September 30,	
2014	\$ 105,163
Total minimum lease payments	105,163
Less: amount representing interest	(5,502)
Present value of minimum lease payments	\$ 99,661

G. Contingent Arbitrage Liabilities

The City has invested a portion of revenue bond proceeds as a reserve for the retirement of the bonds. Any excess of interest revenue earned on invested proceeds over interest paid on the bonds must be rebated to the federal government every five years.

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; and other claims of various nature. The City participates in the Texas Municipal League Intergovernmental Risk Pool. As an insured, the City is not obligated to reimburse the pool for losses. The City has not had any significant reductions in insurance coverage, nor have insurance settlements for the last three fiscal years exceeded insurance coverage. Any losses reported but unsettled or incurred and not reported, are believed to be insignificant to the City's financial statements.

B. Commitments and Contingencies

The City is defendant in lawsuits occurring in the normal course of business. Although the outcome of these matters is not presently determinable, in the opinion of the City's attorney, their resolution will not have a material adverse effect on the financial condition of the City.

(continued)

V. OTHER INFORMATION (Continued)

B. Commitments and Contingencies (Continued)

Amounts received or receivable from grantor agencies are subject to audit and adjustment by such agencies. Any disallowed claims, including amounts already collected may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

C. Municipal Solid Waste Landfill Closure and Post Closure Costs

The City has constructed a Type IV sanitary landfill, which began operations on December 1, 1995. This facility is permitted to accept only brush and/or construction demolition wastes and rubbish free of household wastes.

State and federal laws and regulations require the City to place a final cover on the landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for a period of five years after closure. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City will report a portion of these closure and post closure costs as an operating expense in each period based on landfill capacity used to date. Estimated closure and 5-year post closure costs are approximately \$263,273. The landfill site has an estimated net capacity of 584,974 cubic yards and is expected to be closed within the next 10 years; approximately 43% of the landfill was used at year-end. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The City has received written authorization from the state that no annual contributions are required, thus the intent of the City is to fund the required expenses as incurred.

D. Retirement Plan

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

(continued)

V. OTHER INFORMATION (Continued)

D. Retirement Plan (Continued)

Plan Description (Continued)

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	<u>Plan Year 2010</u>	<u>Plan Year 2011</u>	<u>Plan Year 2012</u>
Employee deposit rate	6.0%	6.0%	6.0%
Matching ratio (city to employee)	2 to 1	2 to 1	2 to 1
Years required for vesting	5	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20	60/5, 0/20
Updated service credit	100% repeating, transfers	100% repeating, transfers	100% repeating, transfers
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating	70% of CPI repeating

Contributions

Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

(continued)

V. OTHER INFORMATION (Continued)

D. Retirement Plan (Continued)

Contributions (Continued)

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

Accounting Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
09/30/10	\$ 1,068,923	\$ 1,068,923	100%	-
09/30/11	1,102,965	1,102,965	100%	-
09/30/12	1,013,729	1,013,729	100%	-

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

Actuarial Valuation Date	12/31/09	12/31/10	12/31/2011
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 equivalent single amortization period	28 years; closed period	27 years; closed period	26 years; closed period
Amortization period for new gains/losses	30 years	30 years	30 years
Asset valuation method	10-year smoothed market	10-year smoothed market	10-year smoothed market
Actuarial Assumptions:			
Investment rate of return*	7.5%	7.0%	7.0%
Projected salary increases*	varies by age and service	varies by age and service	varies by age and service
*Includes inflation at	3.0%	3.0%	3.0%
Cost-of-living adjustments	2.1%	2.1%	2.1%

(continued)

V. OTHER INFORMATION (Continued)

D. Retirement Plan (Continued)

Funded Status and Funding Progress

The funded status as of December 31, 2011, the most recent actuarial valuation date, is presented as follows:

Actuarial accrued liability (AAL)	\$ 30,467,484
Actuarial value of plan assets	<u>25,554,817</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 4,912,667</u>
Funded ratio (actuarial value of plan assets/ALL)	83.9%
Covered payroll (annual payroll of active employees covered by the plan)	\$ 5,949,603
UAAL as a percentage of covered payroll	82.6%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

E. Other Postemployment Benefits

Supplemental Death Benefits Fund (SDBF)

The City also participates in the cost sharing multiple-employer defined benefit group term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

(continued)

V. OTHER INFORMATION (Continued)

E. Other Postemployment Benefits (Continued)

Supplemental Death Benefits Fund (SDBF) (Continued)

The death benefit for active employees provides a lump sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2012, 2011 and 2010 were \$2,486, \$2,487 and \$2,455, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates

(Retiree-only portion of the rate)

<u>Plan/ Calendar Year</u>	<u>Annual Required Contribution (Rate)</u>	<u>Actual Contribution Made (Rate)</u>	<u>Percentage of ARC Contributed</u>
2010	0.04%	0.04%	100%
2011	0.04%	0.04%	100%
2012	0.04%	0.04%	100%

F. Subsequent Events

On November 6, 2012, the City Council approved the issuance of General Obligation Refunding Bonds, Series 2013, in the amount of \$5,235,000. The bonds will be issued to refund a portion of the City's 2003B and 2008 Certificates of Obligation and will be deliverable on or about January 8, 2013.

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**REQUIRED
SUPPLEMENTARY INFORMATION**

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CITY OF STEPHENVILLE, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION

TEXAS MUNICIPAL RETIREMENT SYSTEM

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Funded Ratio	Unfunded Actuarial Accrued Liability	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
12/31/2009	\$ 16,141,135	\$ 23,087,454	69.9%	\$ 6,946,319	\$ 6,040,379	115.0%
12/31/2010	23,356,321	28,698,942	81.4%	5,342,621	6,150,305	86.9%
12/31/2011	25,554,817	30,467,484	83.9%	4,912,667	5,949,603	82.6%

Note:

Fiscal years 2010 and 2011 include the impact of Senate Bill 350 enacted by the Texas Legislature in June of 2011. This legislation provided a restructuring of the Texas Municipal Retirement System funds effective December 31, 2010.

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**COMBINING FUND
STATEMENTS AND SCHEDULES**

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NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds are used to account for specific revenue that is legally restricted to expenditures for particular purposes.

Hotel/Motel Occupancy Tax – This fund is used to account for hotel/motel occupancy tax revenue to be used for enhancing and promoting tourism and convention activity for the benefit of the hotel industry.

Child Safety – This fund is used to account for court costs used to operate a City school crossing guard program, or programs designated to enhance child safety, health, or nutrition; including child abuse prevention and intervention and drug and alcohol abuse prevention.

Public Safety – This fund is used to account for court costs used to promote various public safety programs.

Court Technology – This fund is used to account for court costs used to maintain technological enhancements for the municipal court.

The ***Debt Service Fund*** is used to account for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources.

CITY OF STEPHENVILLE, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2012

	Special Revenue					Total Nonmajor Governmental Funds
	Hotel/Motel Occupancy Tax	Child Safety	Public Safety	Court Technology	Debt Service	
ASSETS						
Cash and investments	\$ 228,162	\$ 18,505	\$ 25,745	\$ 44,647	\$ 117,566	\$ 434,625
Receivables (net of allowance for uncollectibles):						
Taxes	<u>109,156</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,360</u>	<u>120,516</u>
Total assets	<u>\$ 337,318</u>	<u>\$ 18,505</u>	<u>\$ 25,745</u>	<u>\$ 44,647</u>	<u>\$ 128,926</u>	<u>\$ 555,141</u>
LIABILITIES						
Accounts payable	84,560	-	-	-	-	84,560
Deferred revenue	20,288	-	-	-	8,521	28,809
Other liabilities	<u>-</u>	<u>-</u>	<u>2,214</u>	<u>-</u>	<u>-</u>	<u>2,214</u>
Total liabilities	<u>104,848</u>	<u>-</u>	<u>2,214</u>	<u>-</u>	<u>8,521</u>	<u>115,583</u>
FUND BALANCES						
Restricted for:						
Retirement of long-term debt	-	-	-	-	120,405	120,405
Tourism	232,470	-	-	-	-	232,470
Child and public safety	-	18,505	23,531	-	-	42,036
Court technology	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,647</u>	<u>-</u>	<u>44,647</u>
Total fund balances	<u>232,470</u>	<u>18,505</u>	<u>23,531</u>	<u>44,647</u>	<u>120,405</u>	<u>439,558</u>
Total liabilities and fund balances	<u>\$ 337,318</u>	<u>\$ 18,505</u>	<u>\$ 25,745</u>	<u>\$ 44,647</u>	<u>\$ 128,926</u>	<u>\$ 555,141</u>

CITY OF STEPHENVILLE, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Special Revenue					Total Nonmajor Governmental Funds
	Hotel/Motel Occupancy Tax	Child Safety	Public Safety	Court Technology	Debt Service	
REVENUES						
Taxes:						
Property	\$ -	\$ -	\$ -	\$ -	\$ 592,403	\$ 592,403
Other	334,002	-	-	-	-	334,002
Fines and forfeitures	-	13,575	11,905	9,657	-	35,137
Investment earnings	<u>374</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>399</u>	<u>773</u>
Total revenues	<u>334,376</u>	<u>13,575</u>	<u>11,905</u>	<u>9,657</u>	<u>592,802</u>	<u>962,315</u>
EXPENDITURES						
Current:						
Public safety	-	7,535	9,433	-	-	16,968
Culture and recreation	350,678	-	-	-	-	350,678
Debt service:						
Principal	-	-	-	-	440,000	440,000
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>139,305</u>	<u>139,305</u>
Total expenditures	<u>350,678</u>	<u>7,535</u>	<u>9,433</u>	<u>-</u>	<u>579,305</u>	<u>946,951</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(16,302)	6,040	2,472	9,657	13,497	15,364
FUND BALANCES, BEGINNING	<u>248,772</u>	<u>12,465</u>	<u>21,059</u>	<u>34,990</u>	<u>106,908</u>	<u>424,194</u>
FUND BALANCES, ENDING	<u>\$ 232,470</u>	<u>\$ 18,505</u>	<u>\$ 23,531</u>	<u>\$ 44,647</u>	<u>\$ 120,405</u>	<u>\$ 439,558</u>

CITY OF STEPHENVILLE, TEXAS

SPECIAL REVENUE FUND

HOTEL/MOTEL OCCUPANCY TAX FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Taxes - other	\$ 280,000	\$ 334,002	\$ 54,002
Investment income	<u>-</u>	<u>374</u>	<u>374</u>
Total revenues	<u>280,000</u>	<u>334,376</u>	<u>54,376</u>
EXPENDITURES			
Current:			
Culture and recreation	<u>345,000</u>	<u>350,678</u>	<u>(5,678)</u>
Total culture and recreation	<u>345,000</u>	<u>350,678</u>	<u>(5,678)</u>
Total expenditures	<u>345,000</u>	<u>350,678</u>	<u>(5,678)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(65,000)	(16,302)	48,698
FUND BALANCE, BEGINNING	<u>248,772</u>	<u>248,772</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 183,772</u>	<u>\$ 232,470</u>	<u>\$ 48,698</u>

CITY OF STEPHENVILLE, TEXAS

SPECIAL REVENUE FUND

CHILD SAFETY FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Fines and forfeitures	\$ <u>4,500</u>	\$ <u>13,575</u>	\$ <u>9,075</u>
Total revenues	<u>4,500</u>	<u>13,575</u>	<u>9,075</u>
EXPENDITURES			
Current:			
Public safety	<u>6,000</u>	<u>7,535</u>	(<u>1,535</u>)
Total public safety	<u>6,000</u>	<u>7,535</u>	(<u>1,535</u>)
Total expenditures	<u>6,000</u>	<u>7,535</u>	(<u>1,535</u>)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(<u>1,500</u>)	6,040	7,540
FUND BALANCE, BEGINNING	<u>12,465</u>	<u>12,465</u>	<u>-</u>
FUND BALANCE, ENDING	\$ <u><u>10,965</u></u>	\$ <u><u>18,505</u></u>	\$ <u><u>7,540</u></u>

CITY OF STEPHENVILLE, TEXAS

SPECIAL REVENUE FUND

PUBLIC SAFETY FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Fines and forfeitures	\$ 10,000	\$ 11,905	\$ 1,905
Intergovernmental	<u>3,700</u>	<u>-</u>	<u>(3,700)</u>
Total revenues	<u>13,700</u>	<u>11,905</u>	<u>(1,795)</u>
EXPENDITURES			
Current:			
Public safety	<u>13,700</u>	<u>9,433</u>	<u>4,267</u>
Total public safety	<u>13,700</u>	<u>9,433</u>	<u>4,267</u>
Total expenditures	<u>13,700</u>	<u>9,433</u>	<u>4,267</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	2,472	2,472
FUND BALANCE, BEGINNING	<u>21,059</u>	<u>21,059</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 21,059</u>	<u>\$ 23,531</u>	<u>\$ 2,472</u>

CITY OF STEPHENVILLE, TEXAS

SPECIAL REVENUE FUND

COURT TECHNOLOGY FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Fines and forfeitures	\$ <u>4,000</u>	\$ <u>9,657</u>	\$ <u>5,657</u>
Total revenues	<u>4,000</u>	<u>9,657</u>	<u>5,657</u>
EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	4,000	9,657	5,657
FUND BALANCE, BEGINNING	<u>34,990</u>	<u>34,990</u>	<u>-</u>
FUND BALANCE, ENDING	\$ <u><u>38,990</u></u>	\$ <u><u>44,647</u></u>	\$ <u><u>5,657</u></u>

CITY OF STEPHENVILLE, TEXAS

DEBT SERVICE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Taxes - property	\$ 587,747	\$ 592,403	\$ 4,656
Investment earnings	<u>100</u>	<u>399</u>	<u>299</u>
Total revenues	<u>587,847</u>	<u>592,802</u>	<u>4,955</u>
EXPENDITURES			
Debt service:			
Principal	440,000	440,000	-
Interest and fiscal charges	<u>147,847</u>	<u>139,305</u>	<u>8,542</u>
Total debt service	<u>587,847</u>	<u>579,305</u>	<u>8,542</u>
Total expenditures	<u>587,847</u>	<u>579,305</u>	<u>8,542</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	13,497	13,497
FUND BALANCE, BEGINNING	<u>106,908</u>	<u>106,908</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 106,908</u>	<u>\$ 120,405</u>	<u>\$ 13,497</u>

NONMAJOR ENTERPRISE FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the City has decided that periodic determination of net income is appropriate for accountability purposes.

Sanitary Landfill – This fund is used to account for solid waste collection and disposal services provided to the residents of the City.

Airport – This fund is used to account for municipal airport services and to support air transportation and charter services.

CITY OF STEPHENVILLE, TEXAS

COMBINING BALANCE SHEET NONMAJOR ENTERPRISE FUNDS

SEPTEMBER 30, 2012

	Sanitary Landfill	Airport	Total
ASSETS			
Current assets:			
Cash and investments	\$ 20,627	\$ 4,126	\$ 24,753
Accounts receivable (net of allowances for uncollectibles)	<u>1,333</u>	<u>2,199</u>	<u>3,532</u>
Total current assets	<u>21,960</u>	<u>6,325</u>	<u>28,285</u>
Noncurrent assets:			
Restricted cash	-	23,785	23,785
Capital assets:			
Land	40,000	879,399	919,399
Buildings and improvements	915,135	5,183,630	6,098,765
Equipment	1,111,834	162,556	1,274,390
Construction in progress	-	72,368	72,368
Less: accumulated depreciation	<u>(1,103,142)</u>	<u>(889,606)</u>	<u>(1,992,748)</u>
Total capital assets	<u>963,827</u>	<u>5,408,347</u>	<u>6,372,174</u>
Total noncurrent assets	<u>963,827</u>	<u>5,432,132</u>	<u>6,395,959</u>
Total assets	<u>985,787</u>	<u>5,438,457</u>	<u>6,424,244</u>
LIABILITIES			
Current liabilities:			
Accounts payable	2,260	1,443	3,703
Accrued liabilities	1,760	-	1,760
Accrued interest payable	5,503	1,682	7,185
Customer deposits	1,200	-	1,200
Unearned revenue	-	14,720	14,720
Compensated absences payable	3,133	-	3,133
Capital lease	99,661	-	99,661
Bonds payable	<u>-</u>	<u>20,000</u>	<u>20,000</u>
Total current liabilities	<u>113,517</u>	<u>37,845</u>	<u>151,362</u>
Long-term liabilities:			
Compensated absences payable	92	-	92
Bonds payable	-	107,865	107,865
Liability for landfill closure	<u>133,319</u>	<u>-</u>	<u>133,319</u>
Total long-term liabilities	<u>133,411</u>	<u>107,865</u>	<u>241,276</u>
Total liabilities	<u>246,928</u>	<u>145,710</u>	<u>392,638</u>
NET ASSETS			
Invested in capital assets, net of related debt	864,166	5,280,482	6,144,648
Restricted for airport development	-	23,785	23,785
Unrestricted	<u>(125,307)</u>	<u>(11,520)</u>	<u>(136,827)</u>
Total net assets	<u>\$ 738,859</u>	<u>\$ 5,292,747</u>	<u>\$ 6,031,606</u>

CITY OF STEPHENVILLE, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Sanitary Landfill</u>	<u>Airport</u>	<u>Total</u>
OPERATING REVENUES			
Gate charges	\$ 199,704	\$ -	\$ 199,704
Hanger rental	-	88,010	88,010
Other service charges	842	5,483	6,325
Total operating revenues	<u>200,546</u>	<u>93,493</u>	<u>294,039</u>
OPERATING EXPENSES			
Personnel services	132,628	-	132,628
Contractual services	31,005	3,950	34,955
Utilities	493	26,081	26,574
Repairs and maintenance	3,357	15,768	19,125
Other	32,753	7,399	40,152
Depreciation	<u>106,421</u>	<u>122,999</u>	<u>229,420</u>
Total operating expenses	<u>306,657</u>	<u>176,197</u>	<u>482,854</u>
OPERATING LOSS	(106,111)	(82,704)	(188,815)
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	31	-	31
Interest and fiscal charges	(7,321)	(5,707)	(13,028)
Intergovernmental	<u>-</u>	<u>7,868</u>	<u>7,868</u>
Total nonoperating revenues (expenses)	<u>(7,290)</u>	<u>2,161</u>	<u>(5,129)</u>
LOSS BEFORE CONTRIBUTIONS AND TRANSFERS	(113,401)	(80,543)	(193,944)
CAPITAL CONTRIBUTIONS	-	813,212	813,212
TRANSFER IN	<u>105,000</u>	<u>115,000</u>	<u>220,000</u>
CHANGE IN NET ASSETS	(8,401)	847,669	839,268
TOTAL NET ASSETS, BEGINNING	<u>747,260</u>	<u>4,445,078</u>	<u>5,192,338</u>
TOTAL NET ASSETS, ENDING	<u>\$ 738,859</u>	<u>\$ 5,292,747</u>	<u>\$ 6,031,606</u>

CITY OF STEPHENVILLE, TEXAS
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Sanitary Landfill	Airport	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 200,745	\$ 95,147	\$ 295,892
Cash payments to employees	(132,407)	-	(132,407)
Cash payments to suppliers for goods and services	(65,606)	(53,906)	(119,512)
Cash provided by operating activities	<u>2,732</u>	<u>41,241</u>	<u>43,973</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash received from operating grant	-	7,868	7,868
Cash provided by noncapital financing activities	<u>-</u>	<u>7,868</u>	<u>7,868</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal payments on capital lease	(94,460)	-	(94,460)
Principal payments on bonds	-	(19,000)	(19,000)
Interest and fiscal charges on debt	(10,703)	(6,505)	(17,208)
Transfers from other funds for capital acquisition	105,000	115,000	220,000
Acquisition and construction of capital assets	(108,685)	(183,820)	(292,505)
Cash used by capital and related financing activities	<u>(108,848)</u>	<u>(94,325)</u>	<u>(203,173)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	<u>31</u>	-	<u>31</u>
Cash provided by investing activities	<u>31</u>	-	<u>31</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(106,085)	(45,216)	(151,301)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>126,712</u>	<u>73,127</u>	<u>199,839</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 20,627</u>	<u>\$ 27,911</u>	<u>\$ 48,538</u>
(Including \$23,785 for the Airport Fund in restricted cash)			
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating loss	\$(106,111)	\$(82,704)	\$(188,815)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	106,421	122,999	229,420
Change in assets and liabilities:			
Decrease (increase) in accounts receivable	(101)	2,294	2,193
Increase (decrease) in accounts payable	(232)	(708)	(940)
Increase (decrease) in accrued liabilities	2,311	-	2,311
Increase (decrease) in customer deposits	300	-	300
Increase (decrease) in unearned revenue	-	(640)	(640)
Increase (decrease) in compensated absences	144	-	144
Total adjustments	<u>108,843</u>	<u>123,945</u>	<u>232,788</u>
Net cash provided by operating activities	<u>\$ 2,732</u>	<u>\$ 41,241</u>	<u>\$ 43,973</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES			
Contributions of capital assets	<u>\$ -</u>	<u>\$ 813,212</u>	<u>\$ 813,212</u>

STATISTICAL SECTION

This part of the City of Stephenville, Texas' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Contents	Page
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	59
Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue sources. Although sales taxes are the City's most significant local revenue source, information about revenue base is unavailable and information about principal revenue payers is confidential under Texas statutes. Trend information about sales tax revenues is provided in Table 2. Additionally, information about the City's second most significant local revenue source, the property tax, is provided.	69
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	73
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	78
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	80

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF STEPHENVILLE, TEXAS

NET ASSETS BY COMPONENT

LAST TEN FISCAL YEARS

(Accrual Basis of Accounting)

	Fiscal Year			
	2003	2004	2005	2006
Governmental activities:				
Invested in capital assets, net of related debt	\$ 8,671,383	\$ 8,877,241	\$ 9,070,652	\$ 9,734,777
Restricted	-	620,104	295,721	381,849
Unrestricted	<u>7,932,439</u>	<u>8,181,076</u>	<u>9,548,977</u>	<u>10,237,660</u>
Total governmental activities net assets	<u>\$ 16,603,822</u>	<u>\$ 17,678,421</u>	<u>\$ 18,915,350</u>	<u>\$ 20,354,286</u>
Business-type activities:				
Invested in capital assets, net of related debt	\$ 11,789,690	\$ 14,229,406	\$ 16,190,916	\$ 17,432,394
Restricted	508,583	470,750	514,842	599,910
Unrestricted	<u>5,621,026</u>	<u>4,134,841</u>	<u>5,301,524</u>	<u>6,516,830</u>
Total business-type activities net assets	<u>\$ 17,919,299</u>	<u>\$ 18,834,997</u>	<u>\$ 22,007,282</u>	<u>\$ 24,549,134</u>
Total:				
Invested in capital assets, net of related debt	\$ 20,461,073	\$ 23,106,647	\$ 25,261,568	\$ 27,167,171
Restricted	508,583	1,090,854	810,563	981,759
Unrestricted	<u>13,553,465</u>	<u>12,315,917</u>	<u>14,850,501</u>	<u>16,754,490</u>
Total net assets	<u>\$ 34,523,121</u>	<u>\$ 36,513,418</u>	<u>\$ 40,922,632</u>	<u>\$ 44,903,420</u>

TABLE 1

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$ 10,157,475	\$ 10,513,386	\$ 18,471,335	\$ 16,763,870	\$ 16,605,859	\$ 17,500,689
366,934	397,365	434,394	405,640	420,877	450,527
<u>11,232,319</u>	<u>12,162,240</u>	<u>5,252,462</u>	<u>7,952,264</u>	<u>8,156,696</u>	<u>7,837,893</u>
<u>\$ 21,756,728</u>	<u>\$ 23,072,991</u>	<u>\$ 24,158,191</u>	<u>\$ 25,121,774</u>	<u>\$ 25,183,432</u>	<u>\$ 25,789,109</u>
\$ 16,564,217	\$ 21,231,388	\$ 23,495,495	\$ 25,323,978	\$ 26,538,623	\$ 28,438,665
665,099	554,647	710,870	690,998	714,547	842,224
<u>9,087,784</u>	<u>7,178,489</u>	<u>5,974,684</u>	<u>4,566,114</u>	<u>5,548,656</u>	<u>5,390,736</u>
<u>\$ 26,317,100</u>	<u>\$ 28,964,524</u>	<u>\$ 30,181,049</u>	<u>\$ 30,581,090</u>	<u>\$ 32,801,826</u>	<u>\$ 34,671,625</u>
\$ 26,721,692	\$ 31,744,774	\$ 41,966,830	\$ 42,087,848	\$ 43,144,482	\$ 45,939,354
1,032,033	952,012	1,145,264	1,096,638	1,135,424	1,292,751
<u>20,320,103</u>	<u>19,340,729</u>	<u>11,227,146</u>	<u>12,518,378</u>	<u>13,705,352</u>	<u>13,228,629</u>
<u>\$ 48,073,828</u>	<u>\$ 52,037,515</u>	<u>\$ 54,339,240</u>	<u>\$ 55,702,864</u>	<u>\$ 57,985,258</u>	<u>\$ 60,460,734</u>

CITY OF STEPHENVILLE, TEXAS

CHANGES IN NET ASSETS

LAST TEN FISCAL YEARS

(Accrual Basis of Accounting)

	Fiscal Year			
	2003	2004	2005	2006
EXPENSES				
Governmental activities:				
General government	\$ 1,262,164	\$ 1,421,563	\$ 1,453,986	\$ 1,441,939
Public safety	4,028,747	4,026,402	4,345,846	4,689,443
Streets	894,193	995,046	979,051	1,098,979
Culture and recreation	1,522,896	1,574,032	1,582,864	1,646,017
Community development	317,743	296,244	348,177	343,135
Interest on long-term debt	153,445	130,388	109,153	91,817
Total governmental activities expenses	<u>8,179,188</u>	<u>8,443,675</u>	<u>8,819,077</u>	<u>9,311,330</u>
Business-type activities:				
Water and wastewater	3,790,830	4,582,690	4,367,671	4,681,174
Sanitary landfill	211,159	151,309	99,078	119,832
Airport	99,847	101,082	8,633	18,075
Storm water drainage	14,034	35,462	166,346	232,955
Total business-type activities expenses	<u>4,115,870</u>	<u>4,870,543</u>	<u>4,641,728</u>	<u>5,052,036</u>
Total expenses	<u>\$ 12,295,058</u>	<u>\$ 13,314,218</u>	<u>\$ 13,460,805</u>	<u>\$ 14,363,366</u>
PROGRAM REVENUES				
Governmental activities:				
Charges for services:				
General government	\$ 21,421	\$ 195,176	\$ 172,292	\$ 177,636
Public safety	884,349	524,561	488,292	600,332
Streets	22,388	28,748	17,213	17,444
Culture and recreation	157,741	147,563	135,607	132,125
Community development	82,182	165,803	163,490	180,304
Operating grants and contributions	146,257	189,805	125,068	172,884
Capital grants and contributions	185,625	366,478	556,425	177,503
Total governmental activities program revenues	<u>1,499,963</u>	<u>1,618,134</u>	<u>1,658,387</u>	<u>1,458,228</u>
Business-type activities:				
Charges for services:				
Water and wastewater	\$ 4,261,555	\$ 4,564,193	\$ 5,245,901	\$ 5,628,658
Sanitary landfill	154,650	174,152	174,845	162,306
Airport	24,865	31,077	39,088	51,037
Storm water drainage	511,427	478,143	485,600	485,314
Operating grants and contributions	-	-	-	-
Capital grants and contributions	273,101	411,474	1,513,020	599,393
Total business-type activities program revenues	<u>5,225,598</u>	<u>5,659,039</u>	<u>7,458,454</u>	<u>6,926,708</u>
Total program revenues	<u>\$ 6,725,561</u>	<u>\$ 7,277,173</u>	<u>\$ 9,116,841</u>	<u>\$ 8,384,936</u>

TABLE 2

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$ 1,591,258	\$ 1,331,583	\$ 1,309,902	\$ 1,412,441	\$ 1,374,221	\$ 1,518,207
5,187,628	5,504,975	6,043,653	6,252,861	6,274,700	6,496,290
1,144,681	1,183,435	1,210,135	1,426,590	1,479,381	1,567,117
1,733,627	2,166,545	2,340,312	2,438,756	2,522,284	2,509,599
381,091	395,182	408,144	427,769	374,335	433,360
65,926	103,490	72,220	141,220	97,809	151,197
<u>10,104,211</u>	<u>10,685,210</u>	<u>11,384,366</u>	<u>12,099,637</u>	<u>12,122,730</u>	<u>12,675,770</u>
4,776,359	4,526,893	4,819,886	5,054,152	4,846,996	4,833,953
272,010	290,349	527,255	294,407	313,982	313,978
130,169	127,018	170,287	158,085	160,803	181,904
141,516	245,371	346,159	580,590	600,859	562,207
<u>5,320,054</u>	<u>5,189,631</u>	<u>5,863,587</u>	<u>6,087,234</u>	<u>5,922,640</u>	<u>5,892,042</u>
<u>\$ 15,424,265</u>	<u>\$ 15,874,841</u>	<u>\$ 17,247,953</u>	<u>\$ 18,186,871</u>	<u>\$ 18,045,370</u>	<u>\$ 18,567,812</u>
\$ 243,929	\$ 219,353	\$ 231,122	\$ 215,757	\$ 216,870	\$ 219,082
687,567	906,131	677,662	834,180	893,207	1,077,514
27,425	24,046	21,472	24,713	24,419	95,954
171,931	145,225	221,589	317,917	338,662	363,650
160,745	272,729	126,186	177,401	249,501	193,592
115,859	57,969	109,861	43,417	40,015	29,142
115,556	148	740,974	1,602,301	258,933	159,402
<u>1,523,012</u>	<u>1,625,601</u>	<u>2,128,866</u>	<u>3,215,686</u>	<u>2,021,607</u>	<u>2,138,336</u>
\$ 5,092,578	\$ 5,469,932	\$ 5,492,233	\$ 5,396,349	\$ 6,147,606	\$ 6,055,936
170,814	275,915	414,503	175,153	277,985	200,546
61,916	68,186	73,180	72,408	76,015	93,493
500,779	577,766	584,439	588,141	591,326	604,231
-	-	20,062	17,808	5,184	7,868
169,370	870,718	249,253	402,702	528,471	813,212
<u>5,995,457</u>	<u>7,262,517</u>	<u>6,833,670</u>	<u>6,652,561</u>	<u>7,626,587</u>	<u>7,775,286</u>
<u>\$ 7,518,469</u>	<u>\$ 8,888,118</u>	<u>\$ 8,962,536</u>	<u>\$ 9,868,247</u>	<u>\$ 9,648,194</u>	<u>\$ 9,913,622</u>

(continued)

CITY OF STEPHENVILLE, TEXAS

CHANGES IN NET ASSETS

(Continued)

LAST TEN FISCAL YEARS

(Accrual Basis of Accounting)

	Fiscal Year			
	2003	2004	2005	2006
NET (EXPENSE) REVENUES				
Governmental activities	\$(6,679,225)	\$(6,825,541)	\$(7,160,690)	\$(7,853,102)
Business-type activities	<u>1,109,728</u>	<u>788,496</u>	<u>2,816,726</u>	<u>1,874,672</u>
Total net expense	<u>(5,569,497)</u>	<u>(6,037,045)</u>	<u>(4,343,964)</u>	<u>(5,978,430)</u>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS				
Governmental activities:				
Taxes:				
Property - general purposes	1,994,728	2,249,922	2,447,610	2,657,106
Property - debt service	545,552	540,467	448,663	437,146
Sales	3,217,670	3,538,100	3,654,232	4,101,973
Franchise	934,965	1,209,036	1,264,298	1,423,615
Other	208,534	262,467	292,447	312,528
Gain on sale of capital assets	-	-	-	-
Investment earnings	196,542	87,990	286,301	441,986
Miscellaneous	33,971	12,158	54,068	34,663
Transfers	<u>315,638</u>	<u>-</u>	<u>(50,000)</u>	<u>(116,979)</u>
Total governmental activities	<u>7,447,600</u>	<u>7,900,140</u>	<u>8,397,619</u>	<u>9,292,038</u>
Business-type activities:				
Investment earnings	105,970	100,773	305,559	518,164
Miscellaneous	9,137	26,429	-	32,037
Transfers	<u>(315,638)</u>	<u>-</u>	<u>50,000</u>	<u>116,979</u>
Total business-type activities	<u>(200,531)</u>	<u>127,202</u>	<u>355,559</u>	<u>667,180</u>
Total general revenues and other changes in net assets	<u>7,247,069</u>	<u>8,027,342</u>	<u>8,753,178</u>	<u>9,959,218</u>
CHANGE IN NET ASSETS				
Governmental activities	768,375	1,074,599	1,236,929	1,438,936
Business-type activities	<u>909,197</u>	<u>915,698</u>	<u>3,172,285</u>	<u>2,541,852</u>
Total change in net assets	<u>\$ 1,677,572</u>	<u>\$ 1,990,297</u>	<u>\$ 4,409,214</u>	<u>\$ 3,980,788</u>

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$(8,581,199)	\$(9,059,609)	\$(9,255,500)	\$(8,883,951)	\$(10,101,123)	\$(10,537,434)
<u>675,403</u>	<u>2,072,886</u>	<u>970,083</u>	<u>565,327</u>	<u>1,703,947</u>	<u>1,883,244</u>
<u>(7,905,796)</u>	<u>(6,986,723)</u>	<u>(8,285,417)</u>	<u>(8,318,624)</u>	<u>(8,397,176)</u>	<u>(8,654,190)</u>
2,913,521	3,131,702	3,382,272	3,371,138	3,595,948	3,787,828
476,117	527,921	536,671	608,404	526,519	593,543
4,351,269	4,745,309	4,622,690	4,275,545	4,616,312	5,191,213
1,370,838	1,169,858	1,186,650	1,018,036	1,120,678	1,122,934
388,013	434,498	372,815	341,456	363,645	393,461
-	-	-	323,641	12,159	-
623,810	454,269	108,218	32,294	13,517	14,651
75,994	17,186	124,613	14,190	26,870	18,320
<u>(215,921)</u>	<u>(104,871)</u>	<u>6,771</u>	<u>(112,834)</u>	<u>(137,203)</u>	<u>21,161</u>
<u>9,983,641</u>	<u>10,375,872</u>	<u>10,340,700</u>	<u>9,871,870</u>	<u>10,138,445</u>	<u>11,143,111</u>
876,642	469,667	68,079	6,714	5,151	7,716
-	-	7,888	-	-	-
<u>215,921</u>	<u>104,871</u>	<u>(6,771)</u>	<u>112,834</u>	<u>137,203</u>	<u>(21,161)</u>
<u>1,092,563</u>	<u>574,538</u>	<u>69,196</u>	<u>119,548</u>	<u>142,354</u>	<u>(13,445)</u>
<u>11,076,204</u>	<u>10,950,410</u>	<u>10,409,896</u>	<u>9,991,418</u>	<u>10,280,799</u>	<u>11,129,666</u>
1,402,442	1,316,263	1,085,200	987,919	37,322	605,677
<u>1,767,966</u>	<u>2,647,424</u>	<u>1,039,279</u>	<u>684,875</u>	<u>1,846,301</u>	<u>1,869,799</u>
<u>\$ 3,170,408</u>	<u>\$ 3,963,687</u>	<u>\$ 2,124,479</u>	<u>\$ 1,672,794</u>	<u>\$ 1,883,623</u>	<u>\$ 2,475,476</u>

CITY OF STEPHENVILLE, TEXAS

FUND BALANCES GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS *(Modified Accrual Basis of Accounting)*

	Fiscal Year		
	2003	2004	2005
General fund			
Reserved	\$ 7,178	\$ 4,072	\$ 13,349
Unreserved	7,309,934	8,017,965	8,361,416
Nonspendable	-	-	-
Assigned	-	-	-
Unassigned	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total general fund	\$ <u>7,317,112</u>	\$ <u>8,022,037</u>	\$ <u>8,374,765</u>
All other governmental funds			
Reserved			
Debt service funds	\$ 41,081	\$ 41,285	\$ 50,563
Unreserved, reported in:			
Special revenue funds	237,911	211,765	247,743
Capital projects funds	772,431	735,191	1,063,030
Restricted	-	-	-
Assigned	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total all other governmental funds	\$ <u>1,051,423</u>	\$ <u>988,241</u>	\$ <u>1,361,336</u>

Note:

The City implemented GASB Statement 54 in fiscal year 2011. Prior year balances have not been restated to conform to GASB Statement 54.

TABLE 3

<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 10,352	\$ 15,224	\$ 8,653	\$ 12,680	\$ 9,148	\$ -	\$ -
9,045,429	10,039,416	9,555,553	7,358,831	7,196,152	-	-
-	-	-	-	-	18,836	17,399
-	-	-	-	-	3,750,000	1,989,442
-	-	-	-	-	3,779,268	5,113,489
<u>\$ 9,055,781</u>	<u>\$ 10,054,640</u>	<u>\$ 9,564,206</u>	<u>\$ 7,371,511</u>	<u>\$ 7,205,300</u>	<u>\$ 7,548,104</u>	<u>\$ 7,120,330</u>
\$ 69,443	\$ 82,233	\$ 89,253	\$ 96,071	\$ 93,267	\$ -	\$ -
318,028	280,798	350,750	332,799	337,679	-	-
1,051,972	1,069,303	2,429,680	1,676,876	1,155,196	-	-
-	-	-	-	-	424,194	4,206,447
-	-	-	-	-	486,235	529,093
<u>\$ 1,439,443</u>	<u>\$ 1,432,334</u>	<u>\$ 2,869,683</u>	<u>\$ 2,105,746</u>	<u>\$ 1,586,142</u>	<u>\$ 910,429</u>	<u>\$ 4,735,540</u>

CITY OF STEPHENVILLE, TEXAS

CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS *(Modified Accrual Basis of Accounting)*

	Fiscal Year		
	2003	2004	2005
REVENUES			
Taxes	\$ 6,891,072	\$ 7,804,900	\$ 8,103,134
Service charges	545,763	697,355	651,021
Fines and forfeitures	248,426	229,922	207,407
Licenses and permits	84,669	168,519	168,523
Intergovernmental	249,564	306,510	104,228
Investment earnings	194,772	87,991	286,300
Miscellaneous	125,027	52,734	108,222
Special assessments	-	-	402,789
Total revenues	<u>8,339,293</u>	<u>9,347,931</u>	<u>10,031,624</u>
EXPENDITURES			
General government	1,113,323	1,274,807	1,231,709
Public safety	3,821,859	3,874,454	4,140,738
Streets	561,646	630,057	578,126
Culture and recreation	1,357,624	1,336,974	1,412,305
Community development	317,743	295,036	346,969
Debt service			
Principal	470,000	500,000	420,000
Interest	157,032	133,441	111,582
Bond issuance costs	-	-	-
Capital outlay	<u>366,753</u>	<u>661,419</u>	<u>1,014,372</u>
Total expenditures	<u>8,165,980</u>	<u>8,706,188</u>	<u>9,255,801</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>173,313</u>	<u>641,743</u>	<u>775,823</u>
OTHER FINANCING SOURCES (USES)			
Issuance of bonds	-	-	-
Proceeds from capital assets	-	-	-
Proceeds from insurance	-	-	-
Transfers in	423,414	90,000	90,000
Transfers out	<u>(107,776)</u>	<u>(90,000)</u>	<u>(140,000)</u>
Total other financing sources (uses)	<u>315,638</u>	<u>-</u>	<u>(50,000)</u>
NET CHANGE IN FUND BALANCES	<u>\$ 488,951</u>	<u>\$ 641,743</u>	<u>\$ 725,823</u>
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	<u>8.7%</u>	<u>8.5%</u>	<u>6.9%</u>

TABLE 4

Fiscal Year						
2006	2007	2008	2009	2010	2011	2012
\$ 8,942,235	\$ 9,506,528	\$ 10,004,265	\$ 10,104,779	\$ 9,570,777	\$ 10,251,019	\$ 11,062,514
640,935	738,526	839,684	948,049	1,178,800	1,076,971	1,291,337
279,716	353,889	361,027	226,083	229,357	295,075	318,899
183,839	164,071	275,887	131,341	138,675	255,269	182,517
188,096	111,889	87,730	124,581	1,366,544	147,510	233,670
441,986	623,810	454,269	108,218	32,294	13,517	14,651
60,110	119,731	19,734	35,189	19,269	37,977	18,189
28,122	-	-	-	-	-	-
<u>10,765,039</u>	<u>11,618,444</u>	<u>12,042,596</u>	<u>11,678,240</u>	<u>12,535,716</u>	<u>12,077,338</u>	<u>13,121,777</u>
1,349,248	1,491,202	1,293,925	1,355,822	1,359,012	1,319,243	1,504,855
4,562,217	4,955,771	5,459,268	5,827,418	6,048,150	6,084,813	6,210,892
699,290	735,614	824,764	845,429	850,428	937,367	968,236
1,466,261	1,518,938	1,931,846	2,006,999	2,072,331	2,189,768	2,268,386
337,659	375,614	394,833	407,208	420,982	367,228	414,769
430,000	455,000	475,000	425,000	460,000	420,000	440,000
91,817	71,105	49,195	99,652	144,279	98,117	139,305
-	-	12,725	25,000	-	-	45,000
<u>952,446</u>	<u>807,528</u>	<u>1,902,168</u>	<u>5,265,493</u>	<u>2,099,912</u>	<u>889,326</u>	<u>1,793,507</u>
<u>9,888,938</u>	<u>10,410,772</u>	<u>12,343,724</u>	<u>16,258,021</u>	<u>13,455,094</u>	<u>12,305,862</u>	<u>13,784,950</u>
<u>876,101</u>	<u>1,207,672</u>	<u>(301,128)</u>	<u>(4,579,781)</u>	<u>(919,378)</u>	<u>(228,524)</u>	<u>(663,173)</u>
-	-	1,325,000	1,500,000	-	-	4,000,000
-	-	27,914	21,881	338,054	27,316	27,851
-	-	-	94,497	8,343	5,502	11,498
94,500	55,000	207,629	2,461,037	204,320	292,052	741,161
<u>(211,479)</u>	<u>(270,921)</u>	<u>(312,500)</u>	<u>(2,454,266)</u>	<u>(317,154)</u>	<u>(429,255)</u>	<u>(720,000)</u>
<u>(116,979)</u>	<u>(215,921)</u>	<u>1,248,043</u>	<u>1,623,149</u>	<u>233,563</u>	<u>(104,385)</u>	<u>4,060,510</u>
\$ <u>759,122</u>	\$ <u>991,751</u>	\$ <u>946,915</u>	\$ <u>(2,956,632)</u>	\$ <u>(685,815)</u>	\$ <u>(332,909)</u>	\$ <u>3,397,337</u>
<u>6.2%</u>	<u>5.8%</u>	<u>5.3%</u>	<u>5.0%</u>	<u>5.6%</u>	<u>4.8%</u>	<u>4.9%</u>

TABLE 5

CITY OF STEPHENVILLE, TEXAS

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

LAST TEN FISCAL YEARS

Fiscal Year	Residential Property	Commercial Property	Industrial Property	Less: Tax-exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value
2003	\$ 300,285,040	\$ 341,944,306	\$ 97,673,680	\$ 221,495,172	\$ 518,407,854	\$0.4850	\$ 528,987,606
2004	332,268,337	380,965,905	111,273,080	249,575,629	574,931,693	0.4850	586,664,993
2005	352,795,683	386,744,845	105,901,750	253,232,383	592,209,895	0.4850	604,295,811
2006	387,312,400	403,019,380	113,971,870	260,321,554	643,982,096	0.4750	657,124,588
2007	436,191,340	446,012,320	124,665,270	287,207,489	719,661,441	0.4650	734,348,409
2008	473,515,020	493,287,390	139,045,430	287,501,749	818,346,091	0.4450	835,047,032
2009	530,504,500	521,967,390	134,864,860	296,981,931	890,354,819	0.4350	908,525,326
2010	541,059,730	514,106,150	145,588,370	305,171,070	895,583,180	0.4435	913,860,388
2011	546,372,660	514,213,740	127,553,350	302,938,397	885,201,353	0.4600	903,266,687
2012	555,032,740	511,780,800	148,096,980	317,517,724	897,392,796	0.4850	915,706,935

Source: Erath County Appraisal District.

Note: Property in Erath County is reassessed once every three years on average. The County assesses property at approximately 95 percent of actual value for commercial, industrial and residential property. Estimated actual taxable value is calculated by dividing taxable assessed value by those percentages. Tax rates are per \$100 of assessed value.

TABLE 6

CITY OF STEPHENVILLE, TEXAS
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS

Fiscal Year	City Direct Rates			Overlapping Rates			Total Direct and Overlapping Rates
	Basic Rate	General Obligation Debt Service	Total Direct Rate	Stephenville School District	Middle Trinity Water District	Erath County	
2003	\$0.3812	\$0.1038	\$0.4850	\$1.6900	0.0150	\$0.4700	\$2.6600
2004	0.3913	0.0937	0.4850	1.6700	0.0150	0.4512	2.6212
2005	0.4107	0.0743	0.4850	1.6700	0.0150	0.4625	2.6325
2006	0.4079	0.0671	0.4750	1.6600	0.0150	0.4410	2.5910
2007	0.3996	0.0654	0.4650	1.5199	0.0150	0.4352	2.4351
2008	0.3811	0.0639	0.4450	1.1920	0.0150	0.4187	2.0707
2009	0.3762	0.0588	0.4350	1.1470	0.0150	0.3915	1.9885
2010	0.3762	0.0673	0.4435	1.1470	0.0150	0.3900	1.9955
2011	0.4015	0.0585	0.4600	1.1470	0.0150	0.4500	2.0720
2012	0.4194	0.0656	0.4850	1.1700	0.0150	0.4700	2.1400

Source: Erath County Appraisal District

Notes: The City's basic property tax rate may be increased only by a majority vote of the City's residents. Rates for debt service are set based on each year's requirements.

Overlapping rates are those of local and county governments that apply to property owners within the City of Stephenville, Texas.

TABLE 7

CITY OF STEPHENVILLE, TEXAS

PRINCIPAL PROPERTY TAXPAYERS

CURRENT YEAR AND NINE YEARS AGO

Taxpayer	2012		2003	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
FMC Company	\$ 43,921,753	4.89%	\$ 22,114,881	4.52%
Saint Gobain Abrasives	15,483,558	1.73%	15,311,010	3.13%
Seam Mac Tube LLC	-	- %	4,285,960	0.88%
Stephenville Campus Crest	11,030,880	1.23%	-	- %
Stephenville Student Housing LP	10,259,330	1.14%	-	- %
Wal-Mart Stores, Inc. #1	8,394,510	0.94%	7,694,070	1.57%
Bosque River Associates	8,211,620	0.92%	8,553,570	1.75%
Oncor Electric Delivery	7,457,580	0.83%	7,310,290	1.49%
United Telephone Company (Century Link	6,511,740	0.73%	5,424,040	1.11%
Wilmington Trust (Wal-Mart #2)	6,000,730	0.67%	6,748,260	1.38%
Rayloc Genaut	-	- %	4,134,076	0.84%
Emerson Electric Company	-	- %	4,112,286	0.84%
Subtotal	\$ 117,271,701	13.07%	\$ 85,688,443	17.51%
Remaining Roll	780,121,095	86.93%	403,671,265	82.49%
Total	\$ <u>897,392,796</u>	<u>100.00%</u>	\$ <u>489,359,708</u>	<u>100.00%</u>

Source: Erath County Appraisal District State Property Tax Board Report.

TABLE 8

CITY OF STEPHENVILLE, TEXAS

PROPERTY TAX LEVIES AND COLLECTIONS

LAST TEN FISCAL YEARS

Fiscal Year Ended	Taxes Levied for the Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date		O/S as of 09/30/12
		Amount	Percentage of Levy		Amount	Percentage of Levy	
2003	\$ 2,513,625	\$ 2,462,155	97.95%	\$ 44,531	\$ 2,506,686	99.72%	\$ 6,939
2004	2,788,419	2,726,244	97.77%	58,974	2,785,218	99.89%	3,201
2005	2,832,529	2,808,747	99.16%	19,774	2,828,521	99.86%	4,008
2006	3,066,225	3,018,008	98.43%	44,457	3,062,465	99.88%	3,760
2007	3,344,539	3,307,083	98.88%	33,018	3,340,101	99.87%	4,438
2008	3,641,808	3,602,598	98.92%	32,781	3,635,379	99.82%	6,429
2009	3,874,843	3,822,492	98.65%	41,910	3,864,402	99.73%	10,441
2010	3,965,938	3,887,038	98.01%	54,033	3,941,071	99.37%	24,867
2011	4,059,655	4,007,449	98.71%	30,815	4,038,264	99.47%	21,391
2012	4,343,596	4,302,513	99.05%	-	4,302,513	99.05%	41,083

Sources: Erath County Appraisal District and Erath County Tax Assessor-Collector.

TABLE 9

CITY OF STEPHENVILLE, TEXAS
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities		Business-type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Certificates of Participation	Water Revenue Bonds	Certificates of Participation	Capital Leases			
2003	\$ 1,615,000	\$ 1,330,000	\$ 6,660,000	\$ 7,905,000	\$ -	\$ 17,510,000	4.91%	\$ 1,118
2004	1,235,000	1,210,000	6,295,000	14,174,233	-	22,914,233	6.09%	1,443
2005	945,000	1,080,000	5,910,000	13,250,233	-	21,185,233	5.19%	1,300
2006	645,000	950,000	5,500,000	14,305,233	259,184	21,659,417	5.03%	1,283
2007	330,000	810,000	5,210,000	17,660,134	219,920	24,230,054	5.02%	1,421
2008	1,325,000	665,000	4,905,000	20,644,155	177,337	27,716,492	5.56%	1,607
2009	2,550,000	515,000	4,585,000	19,456,865	499,724	27,606,589	N/A	1,538
2010	2,255,000	350,000	4,250,000	18,179,865	364,740	25,399,605	N/A	1,483
2011	2,185,000	-	3,895,000	16,866,865	194,121	23,140,986	N/A	1,324
2012	5,745,000	-	3,520,000	15,507,865	99,661	24,872,526	N/A	1,360

Notes: The City issued \$4 million of general obligation bonds in 2012.

The City issued over \$5 million of new certificates of participation in 2008.

See Table 14 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year.

TABLE 10

CITY OF STEPHENVILLE, TEXAS

RATIOS OF GENERAL BONDED DEBT OUTSTANDING

LAST TEN FISCAL YEARS

Fiscal Year	General Bonded Debt Outstanding			Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds	Certificates of Obligations	Total		
2003	\$ 1,615,000	\$ 1,330,000	\$ 2,945,000	0.57%	\$ 188
2004	1,235,000	1,210,000	2,445,000	0.43%	154
2005	945,000	1,080,000	2,025,000	0.34%	124
2006	645,000	950,000	1,595,000	0.25%	94
2007	330,000	810,000	1,140,000	0.16%	67
2008	1,325,000	665,000	1,990,000	0.24%	115
2009	2,550,000	515,000	3,065,000	0.34%	171
2010	2,255,000	350,000	2,605,000	0.29%	152
2011	2,185,000	-	2,185,000	0.25%	125
2012	5,745,000	-	5,745,000	0.64%	314

Notes:

See Table 5 for property value data.

Population data can be found in Table 14.

CITY OF STEPHENVILLE, TEXAS

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

AS OF SEPTEMBER 30, 2012

<u>Government Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Debt repaid with property taxes:			
Stephenville Independent School District	\$ 38,155,452	69.26%	\$ 26,426,466
Erath County	6,066,000	39.39%	<u>2,389,397</u>
Subtotal, overlapping debt			28,815,863
City of Stephenville direct debt	5,745,000	100.00%	<u>5,745,000</u>
Total direct and overlapping debt			<u>\$ 34,560,863</u>

Sources:

Assessed value data used to estimate applicable percentages provided by the Erath County Appraisal District and debt outstanding data provided by each governmental unit.

Notes:

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Stephenville. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident--and therefore responsible for repaying the debt--of each overlapping government.

CITY OF STEPHENVILLE, TEXAS

LEGAL DEBT MARGIN AND TAX RATE LIMITATIONS INFORMATION

As a home rule city, the City of Stephenville is not limited by law in the amount of debt it may issue.

Under Article XI, Section 5 of the Texas Constitution, no tax for any purpose shall ever be lawful for any one year, which shall exceed two and one-half percent of the taxable property of the City.

All taxable property within the City is subject to assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal and interest on the bonds within the limits prescribed by law. Under rules promulgated by the Office of the Attorney General of Texas, such office will not approve tax bonds of the City unless the City can demonstrate its ability to pay debt service requirements on all outstanding City tax bonds, including the issue to be approved.

Tax Rate Limitation Calculation for Fiscal Year 2012

Taxable assessed valuation	\$ 897,392,796
Constitutional tax rate limit	2.50% of assessed valuation
Maximum constitutional revenue available	\$ 22,434,820
Tax rate to achieve maximum tax revenue	\$2.50 per \$100 of valuation
Tax rate for FY 2010-2011	\$0.4850 per \$100 of valuation
Available unused constitutional max tax rate	\$2.0150 per \$100 of valuation
Debt applicable to limit:	
General obligation debt	\$ 5,745,000

DEBT TAX RATE ADEQUACY

2012 Principal and Interest Requirements	\$ 582,189
\$0.0662 Tax Rate at 98% Collection Produces	582,193
Average Annual Principal and Interest Requirement, 2013-2031	388,176
\$0.044139 Tax Rate at 98% Collection Produces	388,176
Maximum Principal and Interest Requirements	582,189
\$0.0662 Tax Rate at 98% Collection Produces	582,193

DEBT SERVICE FUND BUDGET PROJECTION

Tax Obligation Debt Service Requirements, Fiscal Year Ending 9-30-2013	582,189
Debt Service Fund, 9-30-12	\$ 120,405
Debt Service Fund Tax Levy @ 98% Collection	<u>582,193</u> \$ <u><u>702,598</u></u>

TABLE 13

CITY OF STEPHENVILLE, TEXAS

PLEDGED REVENUE COVERAGE

LAST TEN FISCAL YEARS

Fiscal Year	Water and Wastewater Revenue Bonds					
	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2003	\$ 4,372,612	\$ 2,321,847	\$ 2,050,765	\$ 1,145,000	\$ 642,281	\$ 1.15
2004	4,556,045	2,569,643	1,986,402	1,240,000	559,001	1.10
2005	5,511,586	2,553,909	2,957,677	1,331,000	712,056	1.45
2006	5,628,658	2,931,743	2,696,915	1,355,000	752,077	1.28
2007	5,092,578	2,946,356	2,146,222	1,220,000	819,564	1.05
2008	5,469,932	2,851,562	2,618,370	1,290,000	650,238	1.35
2009	5,492,233	3,060,691	2,431,542	1,340,000	652,120	1.22
2010	5,396,349	3,283,861	2,112,488	1,390,000	600,240	1.06
2011	6,147,606	3,106,016	3,041,590	1,435,000	543,289	1.54
2012	6,055,936	3,106,535	2,949,401	1,490,000	487,963	1.49

Notes: Operating expenses do not include interest, depreciation, or amortization expenses.

TABLE 14

CITY OF STEPHENVILLE, TEXAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS

Calendar Year	Population	Personal Income	Per Capita Personal Income	School Enrollment	College Enrollment	Unemployment Rate
2003	\$ 15,665	\$ 356,817,370	\$ 22,778	\$ 3,530	\$ 7,197	3.2%
2004	15,884	376,387,264	23,696	3,417	7,347	2.7%
2005	16,300	407,858,600	25,022	3,512	7,589	3.9%
2006	16,882	430,929,932	25,526	3,550	7,776	3.9%
2007	17,050	483,043,550	28,331	3,521	7,840	3.8%
2008	17,250	498,231,750	28,883	3,496	7,763	4.0%
2009	17,950	535,448,500	29,830	3,553	8,242	7.1%
2010	17,123	511,549,625	29,875	3,794	8,896	7.0%
2011	17,480	N/A	N/A	3,584	9,575	6.5%
2012	18,290	N/A	N/A	3,702	10,227	5.2%

Sources: Population, median age, and education level information provided by the State Department of Planning. Personal income and unemployment data provided by the State Department of Commerce and Labor. School enrollment data provided by the Stephenville Independent School District and Tarleton State University.

Note: Population, median age, and education level information are based on surveys conducted during the last quarter of the calendar year. Personal income information is a total for the year. Unemployment rate information is an adjusted yearly average. School enrollment is based on the census at the start of the school year.

Personal income is not available for 2011-2012

Table 15

CITY OF STEPHENVILLE, TEXAS

PRINCIPAL EMPLOYERS

CURRENT YEAR

Employer	2012	
	Employees	Percentage of Total City Employment
Tarleton State University	1,238	6.95%
FMC Company	809	4.54%
Saint Gobain Abrasives	450	2.53%
Wal-Mart Stores, Inc.	429	2.41%
Scheiber Foods	385	2.16%
Texas Health Harris Methodist Stephenville	294	1.65%
Stephenville Independent School District	262	1.47%
Western Dairy Transport	175	0.98%
Erath County	175	0.98%
Fibergrate Composite Structures	132	0.74%
Emerson Electric Company	130	0.73%
Outlaw Conversions	115	0.65%
Stephenville Medical & Surgical Clinic	115	0.65%
Tejas Tubular (Caporal Forging)	110	0.62%
Bruner Motors	105	0.59%
United Cooperative Services	50	0.28%
Southwestern Linen	45	0.25%
Texstar Ford	35	0.20%
Reynolds Nationwide Transport	34	0.19%
USTRA (USTRC)	20	0.11%
Subtotal	5,108	28.68%
Remaining employers	12,703	71.32%
Total	17,811	100.00%

Source:

City Community Development Division. Total employee data is provided by the State Department of Commerce and Labor.

Notes:

Total employee information is based on entire Erath County. Principal employers are only those that operate from within the corporate city limits of Stephenville.

Data for the period nine years prior to the current period is not available.

TABLE 16

CITY OF STEPHENVILLE, TEXAS
FULLTIME EQUIVALENT CITY GOVERNMENT EMPLOYEES
BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government										
Management services	4	4	4	4	4	4	4	4	4	4
Finance	7	7	7	7	7	7	7	7	7	7
Planning	2	2	2	2	2	2	2	2	2	2
Building	1	1	1	2	2	2	2	2	2	2
Other	1	1	1	1	1	1	1	1	1	2
Police										
Officers	30	31	31	31	34	38	38	38	38	38
Civilians	11	11	13	13	12	12	12	12	12	12
Fire										
Firefighters and officers	26	26	26	27	28	31	31	31	31	31
Parks and recreation	13	13	13	13	13	13	13	13	13	14
Library	4	4	4	4	3	3	3	3	3	3
Streets	7	7	7	7	7	7	7	7	7	7
Water	9	9	9	10	13	13	13	13	13	13
Wastewater	8	8	8	8	5	5	5	5	5	5
Landfill	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Total	<u>125</u>	<u>126</u>	<u>128</u>	<u>131</u>	<u>133</u>	<u>140</u>	<u>140</u>	<u>140</u>	<u>140</u>	<u>142</u>

Source: City Human Resource Office

Notes: A fulltime employee is scheduled to work 2080 hours per year (including vacation and sick leave). Fulltime equivalent employment is calculated by dividing total labor hours by 2080.

TABLE 17

CITY OF STEPHENVILLE, TEXAS
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government										
Building permits issued	222	140	172	125	153	135	109	90	148	96
Building permits value	\$10,467,400	\$21,515,373	\$18,442,334	\$12,262,542	\$16,144,842	\$27,821,098	\$11,978,341	\$8,456,287	\$29,365,010	\$11,174,610
Police										
Calls for service	10,203	10,483	10,358	11,234	11,730	11,739	12,730	13,424	17,278	11,166
Physical arrests	1,134	825	959	999	1,447	1,023	953	916	717	882
Parking violations	530	324	386	334	498	171	206	346	401	417
Traffic violations	5,094	5,350	3,588	3,066	4,469	2,473	1,634	1,478	4,639	2,035
Fire										
Ambulance responses	1,372	1,183	1,291	1,255	1,537	1,472	1,502	1,442	1,524	1,517
Fires responses	339	185	235	305	235	219	230	241	282	229
Inspections	135	132	109	105	313	280	326	359	316	289
Refuse collection										
Refuse collected (tons)	-	-	-	-	-	-	-	15,984	15,538	16,930
Other public works										
Street resurfacing (miles)	2.39	1.35	1.14	1.52	2.70	2.23	2.68	1.25	0.90	1.30
Library										
Volumes in collection	43,331	46,938	48,548	47,510	43,737	43,827	44,200	39,333	33,709	32,504
Total volumes borrowed	110	138	155	114	116	94	227	129	132	161
Water										
New connections	5,242	5,521	5,253	5,550	5,660	5,670	5,700	5,624	5,698	5,920
Water main breaks	49	54	50	48	49	44	61	62	70	80
Average daily consumption (thousands of gallons)	2,124,000	1,971,990	2,042,000	2,254,000	1,828,000	2,080,000	2,004,000	1,970,000	2,447,000	2,115,000
Peak daily consumption (thousands of gallons)	4,133,000	3,598,000	3,499,000	4,397,000	3,091,000	3,848,000	3,663,000	3,666,000	4,765,000	3,937,000
Wastewater										
Average daily sewage treatment (thousands of gallons)	1,354,000	1,456,000	1,334,000	1,414,000	1,691,000	1,548,000	1,518,000	1,745,000	1,395,000	1,610,000
WW Peak	-	-	-	-	-	-	-	-	2,716,000	4,494,000

Source: Various City departments

TABLE 18

CITY OF STEPHENVILLE, TEXAS
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	10	10	10	10	10	10	10	10	10	10
Fire										
Stations	2	2	2	2	2	2	2	2	2	2
Other public works										
Streets (miles)	92	92	92	92	96	96	96	91	91	91
Highways (miles)	19	19	19	19	21	21	21	23	23	23
Streetlights	1,013	1,013	1,013	1,013	1,070	1,080	1,096	1,119	1,121	1,125
Parks and recreation										
Acreage	134	134	134	134	134	130	130	130	130	130
Playgrounds	4	4	4	4	4	4	4	4	4	4
Baseball/softball diamonds	9	9	9	9	9	9	9	11	11	11
Soccer/football fields	1	1	1	1	1	1	1	1	1	1
Community centers	2	2	2	2	2	2	2	2	2	2
Water										
Water mains (miles)	116	117	117	120	122	124	125	125	126	126
Fire hydrants	650	670	670	680	692	720	735	771	788	798
Storage capacity (thousands of gallons)	5,500,000	5,500,000	5,500,000	5,500,000	5,500,000	5,750,000	5,750,000	5,750,000	5,750,000	5,750,000
Wastewater										
Sanitary sewers (miles)	105	105	110	110	113	114	115	115	116	116
Storm sewers (miles)	10	10	10	10	10	10.5	10.5	10.5	10.5	10.5
Treatment capacity (thousands of gallons)	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000

Source: Various City departments

Note: No capital asset indicators are available for the general government function.

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SINGLE AUDIT SECTION

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and
Members of the City Council
City of Stephenville, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Stephenville, Texas, (the “City”) as of and for the year ended September 30, 2012, which collectively comprise the City’s basic financial statements and have issued our report thereon dated January 4, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the City Council, federal and state awarding agencies and pass-through entities and is not included to be and should not be used by anyone other than these specified parties.

Pattillo, Brown & Hill, L.L.P.

January 4, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

The Honorable Mayor and
Members of the City Council
City of Stephenville, Texas

Compliance

We have audited City of Stephenville, Texas' (the "City's") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City of Stephenville, Texas, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

Management of the City of Stephenville, Texas, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the City's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the City's compliance but not to provide an opinion on the effectiveness of the City's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

Pattillo, Brown & Hill, L.L.P.

January 4, 2013

CITY OF STEPHENVILLE, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U. S. Department of Transportation</u>			
Passed through the Texas Department of Transportation:			
Airport Development Grant	20.106	11ALSTVLE	\$ 18,622
Airport Development Grant	20.106	11HGSTVLE	729,459
Airport Development Grant	20.106	1202STVLE	65,131
Bosque River Trail	20.205	0902-49-032	<u>98,119</u>
Total Passed through the Texas Department of Transportation			<u>911,331</u>
Total U. S. Department of Transportation			<u>911,331</u>
Total Expenditures of Federal Awards			<u>\$ 911,331</u>

CITY OF STEPHENVILLE, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

1. GENERAL

The Schedule of Expenditures of Federal Awards presents the activity of all applicable federal awards programs of the City. The City's reporting entity is defined in Note 1 of the basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule of Expenditures of Federal Awards.

2. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. The modified accrual basis of accounting is described in Note 1 of the basic financial statements.

CITY OF STEPHENVILLE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	None

Federal Awards:

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs	Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133	None
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Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster:
CFDA #20.106	Airport Development Grant
Dollar threshold used to distinguish between type A and type B federal programs	300,000
Auditee qualified as low-risk auditee for federal single audit?	No

Findings Relating to the Financial Statements Which are Required to be Reported in Accordance With Generally Accepted Government Auditing Standards

None

Findings and Questioned Costs for Federal Awards

None

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